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CREDIT AND CURRENCY
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BY

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DEDICATION

TO THE MEMORY
OF
MY MOTHER AND SISTER,
AND TO
MY WIFE,
THREE LOVING WOMEN,
TO WHOSE DEVOTED CARE AND MINISTRATIONS
I OWE IT, THAT IN MY 76TH YEAR I AM ABLE TO
OFFER THESE THOUGHTS TO MY FELLOWS.

"Get leave to work!

In this world, 'tis the best you ever get at all.
For God in cursing gives us better gifts
Than men in benediction. God says 'Sweat
For foreheads,' men say 'Crowns,' and so we are crowned
Ay, gashed by some tormenting circle of steel
Which snaps with a secret spring. Get work, get work.
Be sure 'tis better than what you work to get."

E. B. BROWNING—"Aurora Leigh."

"Genuine Government
Is but the expression of a Nation, good
Or less good—even as all Society
Howe'er unequal, monstrous, crazed and cursed,
Is but the expression of men's single lives,
The loud sum of the silent units."

E. B. BROWNING—"Aurora Leigh."

PREFACE

EARLY in 1922 I published a pamphlet entitled *A Fluctuating Exchange and the Remedy*. It was an immature production, but in the confusion then prevailing in every department of production, commerce and finance, it was difficult to find reliable data on which to found convincing arguments, or to serve as a basis for reform.

Following the publication came a long threatened breakdown, and for the last five years I have been practically bed-ridden, and so many have been the physical interruptions that the book is a veritable 'Benoni.' By slow degrees its plan and scope took shape. It was not to be a history of currency nor a treatise on financial economics, but a simple enquiry—what Credit and Currency were, whence they derived, and how, after lengthy development, they came to fulfil, or failed to fulfil their purpose and to function as designed. In the course of my enquiries, I was led to ask myself, and later to put the question to others—What constitutes a sound money? The oft-expressed opinion that it was 'currency based on gold' failed to satisfy the essential of stability, and so I was led to formulate the three-fold definition herein expressed.

The object of the book, therefore, is to diagnose the monetary ills from which the world is suffering, with a view to suggest a remedy at once sound, practicable and universal—no other can avail. The method adopted was to start from indisputable fact and, working by a process of deduction confirmed by other facts, to demonstrate when and where the original purpose of currency had been lost sight of, and money finally transformed from servant to master. The language has been kept simple and free from technical terms, that readers without previous knowledge of the subject may be able to follow the line of reasoning.

I agree with Browning—"The best way of removing abuses is to stand fast by truth. Truth is one, as they are manifold; and innumerable negative effects are produced by upholding one positive truth." There is no defect in our social economy which may not be remedied by a careful enquiry into truth and referring its development step by step to the economic principles which truth reveals. Thus adherence to the prime purpose and functioning of currency has disclosed wherein it has failed to fulfil them, and, until these defects have been remedied, finance will continue to dominate production and commerce. The duration of that period it is in the hands of the public to determine. There is no defect in social or political economy for which the members of the body-politic are not individually and collectively responsible, and this responsibility cannot be devolved. As a preventive to unemployment, and as a bond of international peace, a stable medium of exchange is alike to be desired, to be fought for and achieved.

The book has its imperfections, but these, I trust, will prove no hindrance either to the acceptance of truth or to the earnest endeavour to achieve such reforms as the truth demands.

I would avail myself of this opportunity to tender sincere and grateful thanks to the many Embassy and Departmental officials, bankers and others, who have most kindly supplied facts and figures, or thrown light on points of procedure and other matters.

But specially am I indebted to Mr. Charles Alexander Buckmaster, M.A., J.P., for his kindness in reading the typed sheets, and for bestowing valuable hours in the investigation of points for which no books of reference were at hand; to Miss Elizabeth Pike, who most kindly gave of her scant leisure to typing the earliest chapters; to Mr. H. H. Gray, who, as an uninitiate, read through the typed copy and pointed out sentences which for such readers needed clearer expression; and last, but by no means least, to Capt. G. F. Jeanes, for literary criticism of the book and, specially, for his valuable assistance in arranging its publication.

WALTER GOODLIFFE.

ILFORD, *June*, 1926.

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CREDIT AND CURRENCY

NATIONAL AND INTERNATIONAL

CHAPTER I

CREDIT

" You cannot create a Credit."—DR. WM. A. SHAW.

THERE can be little doubt that the economic science and practice of earliest days might be summed up in the lines—

" That they should take who have the power,
And they should keep who can."

It is matter for regret that so many traces of those ancient economic doctrines should still be found in the tenets and practice of modern commerce.

The earliest commercial transactions must have been in the nature of barter—the direct exchange of goods and services for services or goods. The parties to the transaction being present, and the goods in evidence, the exchange value would be mainly determined by the respective needs of the principals, and the fitness of the commodities to satisfy them. The question of the exchange value of the one expressed in terms of the other would not necessarily come to the front, being overborne by the more important consideration of the needs and their satisfaction. It was, and is now, the degree of fitness of a commodity to satisfy a felt need or requirement, which constituted the abstraction, which in economics we now style 'value,' or in the process of exchange, 'credit,' if expressed in terms of money. Since, then, the intrinsic worth of a commodity depends on its degree of fitness to satisfy the need or requirement which calls

it into being, and this intrinsic worth—inherent in the commodity—also constitutes its exchange value or credit, the credit must derive from the commodity and be proportionate to the fitness of the commodity for the purpose designed. Money, therefore, which is a medium designed to represent exchange values, must depend for its actual value on the asset—commodity or service—which it represents.

A brief consideration will demonstrate this.

A traveller, shipwrecked and raft-borne, may have on his person thousands of pounds in money value, but if water and food be spent, they will avail him less than a slice of bread or a cup of fresh water.

You cannot create a credit—‘*ex nihilo nihil fit*,’ and apart from its basic commodity or service, credit—and money which is credit made visible—is nothing worth. There must be an exchangeable something from which a credit derives, and any medium representative of such credit can only be valuable while that something exists, and is available.

The first step in the development of commercial credit no doubt arose from deferred payment. A day came when ‘A’ required immediately some possession of ‘B,’ who was not at the moment needing anything which ‘A’ could offer in exchange. To meet this difficulty ‘A’ gave a verbal undertaking in the presence of witnesses—usually persons in authority, see Genesis 23—for future delivery of such commodities as were agreed upon as a fair exchange.

Such a verbal covenant, being personal and expressed in terms of the agreed commodity, would, as the range and sphere of barter extended, prove highly inconvenient, and a written undertaking would take its place, the wording of which would sooner or later render it transferable. But even a written and transferable covenant would entail disadvantages compared with the direct exchange of commodities, and would tend to fetter the action of the holder, since it could only be dealt with as a whole, whereas commodities could be dealt with in such quantities as need required.

This difficulty was ultimately overcome by the adoption of a standard medium to represent any and all values, and of a fixed quantity of that medium, defined by legal convention,

as the unit of value to measure them. The medium generally took the form of metal, a given weight of which constituted the unit of value. As time went on, the selected medium was found to vary greatly in value, and might at any time be depreciated by the admixture of an alloy. To remedy these defects coinage was introduced, a given weight of the metal medium being minted into a definite number of coins. The fineness of the metal was regulated by decree of the Sovereign—the issue of coinage being then a royal prerogative—and in more recent time by statute, and the metal content of a certain coin was adopted as the unit of value, by which all credits were to be measured, and the results expressed in terms thereof.

At the time of the Conquest the selected metal in England was silver, and the original unit was the Tower or Rochelle pound of $11\frac{1}{4}$ ounces, to which, as it was minted into 20 shillings of 12 pence of 24 grains each, $\frac{3}{4}$ ounces of alloy was added. This gave 15 parts of silver to 1 of alloy, which constituted the National standard for over two centuries.

Edward I. debased the pound by coining it into 20s. 3d., Edward III. by three reductions brought it to 25s.; Henry IV. to 30s.; Edward IV. to 37s. 6d.; and Henry VIII. to 42s. 2½d.; in 1527. Subsequent to this date the pound troy of 12 ounces has been used, and from 1560—the Second of Elizabeth's reign—has been coined into 72 shillings of millesimal fineness 925, 3 parts of alloy being mixed with 37 of silver.*

Gold coins were introduced into England towards the end of the reign of Henry III.—circa 1260. These were debased either by a decrease of weight or an increase in denomination, but principally in the latter way, with the view of adjusting them to the value of the silver currency during its successive changes.

The violent changes in our monetary system at the middle of the sixteenth century consisted in alterations of the standard. By three several debasements Henry VIII. reduced the standard from 11 ounces 2 dwts. of silver and 18 dwts. of alloy, to 4 ounces of silver and 8 ounces of alloy; and Edward VI. reduced it further

* By an amending Act of 1920 the millesimal fineness of silver coins was reduced to 500 so that 12 oz. of pure silver are now coined into 132 shillings.

to 3 ounces of silver and 9 ounces of alloy. Nor was any attention paid to the relative values of gold and silver during these alterations. The ratio of these in 1545 was 9 to 11, in 1550, 170 to 33, and in 1552, only 7 to 3. Enormous profits were made by melting and exporting gold coin, with the result that it soon disappeared from circulation.

It is to be noted that the unit was still a weight of metal, and that no attempt was made to stabilise the unit by restricting the market price of the metal. The fixity of value derived from the decree or statute which made it current at a given value, not from the material of the medium, and was controlled by the Authority of Issue for the time being, whether the King or Parliament.

It will be seen that throughout the earlier period of development—extending over many centuries—the credit medium always depended for its intrinsic value on the commodity or service which it represented, and in the absence of which this intrinsic value was ‘*nil*,’ and its monetary value potential only. The original form of currency—circulating credit—was, as we have seen, a spoken or written undertaking to deliver certain goods or to render specified services, when called upon to do so, and apart from the commodity or service there could be no credit and no agreement. When this form of credit instrument was superseded by metals, the intrinsic value of the metal medium was its value in goods, no matter what its statutory value might be as money. The fact that the money value was often above or below the market value of the metal made no difference either to the statutory value of the unit as the measure of exchange values, or to the value of currency as the representative medium of credit.

Nor did the substitution of gold for silver as the material of the credit medium effect any change in this direction, until the Bank Charter Act of 1844 destroyed the free market in gold by authorising its purchase and resale in unlimited quantities by the Bank of England at the Statutory price—84s. 11½d. per ounce fine. This destroyed the free market in gold as a metal, and substituted a free exchange in it as money valued at an arbitrary price—the amount which it represented when minted into coin under statutory conditions. By this means not only

was the true nature of money as a credit medium lost—being superseded by a fixed value assigned to money apart from commodities—but, a far more important and disastrous feature, the control of a national currency as an aid to commerce was taken from those legally vested with the same, and handed over to that nation or financial combine which might for the time being control the larger portion of the world's currency gold. Money ceased to be the handmaid of commerce and became lord paramount of production, exchange and every phase of human activity. It ceased to be the representative of commodity credit, and itself became a commodity, to be bought and sold as a means of individual enrichment at the cost of the community at large.

The provisions of the Act were an attempt to achieve the impossible—to measure the value of a substance in its own medium, for the substance will remain identical in its characteristics—structure, weight, value—in whatever form and under whatever name it may appear. This we shall see evidenced when we come to treat of the Exchanges. You may take a 1 lb. loaf of bread, divide it into sixteen slices of exactly 1 oz. each and denominate each slice a penny, but each slice will still retain the characteristics of the loaf from which it was cut, nor will its exchange value as food be affected in the smallest degree. In the same manner you can mint 4 oz. of pure gold into 17 coins and call each a sovereign, but, notwithstanding the admixture of the statutory alloy, the pure metal still remains 4 oz. of gold, and its value as metal is unchanged.

As a matter of fact—save for the arts—gold is the most useless of metals, for there is no process contributory to the support and comfort of life which cannot be more efficiently effected by other means at once more durable and less costly.

The fact that the value of gold as a currency medium entirely depends on the free circulation of commodities had been persistently overlooked, until post-war events in America brought it home to us most clearly. It is incontrovertible, that unless its demand for foreign produce exceed in value the surplus produce of its own nationals in regular work, no nation can be an effective centre of currency control. The surplus products must find a market before their exchange value can be realised, and where

foreign products are not required, they must be paid for in the monetary medium—gold. This gold, accumulating in the national coffers, ceases to be currency—since its circulation is arrested—and becomes a dead weight of metal, profitable only for purposes of usury. Thus, by the Act of 1844, money ceased to be representative credit and became itself a commodity, subject to the economic laws which govern commodity exchange.

The transition was attended by a further and grave disadvantage—it brought credit into premature touch with currency, a relation which it would not ordinarily assume until the commodity became the immediate subject of exchange. Interim dealings in a credit must inevitably be a disadvantage to the ultimate purchaser for use or consumption of the commodity whence it derives, since it involves the making of a profit without adequate service rendered. By assigning to money-metal a value distinct from that derived from commodities, it is transformed from an *instrument* into an *article* of commerce. The expression ‘a free market in gold’ is a misnomer, and means nothing more than a free circulation of the metal at its fixed monetary value; and this, as we have just seen, depends absolutely on the free exchange of the commodities which it represents. The buying and selling of money—the credit medium—is a form of exchange, from which commerce and humanity would be the better if freed. So long as the monetary value of gold is correctly viewed as the exchange value of commodity-credit, the market in the metal may be and remain absolutely free. Restrict the circulation of the credit medium to its legitimate sphere, both economically and geographically—to markets within the confines of the nation of issue—and the rise or fall of gold in the metal market must be without effect. This is confirmed by the experience of the last ten years. The metal value of the gold backing of our £290,000,000 of currency notes—viz., £27,000,000, has recently been replaced by Bank of England Notes with no more effect on the circulating medium than is effected by the weekly variation in the ratio of a Bank’s cash to its total liabilities. This must always be so wherever a Statute of legal tender is enforced.

The fact is, that so long as currency is confined to the country of issue, it makes no difference—qua money—whether the

medium be metal or paper, nor is any advantage to be derived from stabilising the price of the material. The statutes, which define the value of the national unit and constitute money legal tender for commodities, are the source of all monetary value, as commodities are of the credit which it represents. So long as those statutes stand the purchasing power of money can only vary in respect of quantity, never in respect of value. The function of the unit is to determine the variations in commodity value, in the same way as the yard determines the variations in the dimensions of a plane superficies. The function of currency is to represent such values in terms of the monetary unit until redeemed by the commodity itself.

Once its function as the statutory representative of commodity value is lost sight of, currency circulation no longer depends solely on the requirements of production and exchange, but is influenced by innumerable factors—speculation, usury, financial policy, etc.—with which it has no concern, and from the influence of which, in its proper functioning, credit is immune. From an useful ministrant to the commercial needs of daily life, it is made the means to harness the world's activities to the chariot of finance, and to bring human effort into a condition of economic helotry.

One seeks in vain to discover any benefit which humanity derives from this neglect of the true character and functioning of money as a credit medium, and its transformation from the measure and representative of value into a commodity.

It is remarkable how largely abstractions—time, space, capacity, weight, value, etc.—figure in the transactions of everyday life, abstractions which can be comprehended only by reference to an artificial unit, designed to differentiate them under varying conditions and to record their findings. Thus we in England have adopted the hour, the yard, the pint, the pound, and the sovereign as national units, to enable us to measure and record temporary variations of the abstractions named above. Each of these units in everyday use is by law referred to a fixed standard, and so long as each several unit corresponds approximately to the legal standard it is deemed valid. The use of any unit which does not meet 'standard' requirements is by law prohibited.

Is it conceivable that any one would deem the validity of any unit to depend on the material from which it is formed? The hour is the 24th part of the solar day. Is the duration of the hour influenced by the material of the time-piece or dial which records its passage? Does it make any difference to a valid yard whether its material be tape, wood or metal? Is the capacity of a valid pint altered because it is constructed of gold, silver or pewter, instead of glass, earthenware, or wood? Does a valid pound avoirdupois vary according as it be made of iron or brass? Why then, should a valid sovereign be deemed to change its monetary value if represented by paper instead of gold? Only because we have erroneously assigned to gold a fictitious monetary value—under the impression that we were thereby stabilising our unit of value—and so restricted its market as a metal. The unit of value, properly regarded, was already stabilised by the Statutes of legal tender.*

A rain-gauge is a simple contrivance for measuring the downfall of rain over a limited superficies, thereby enabling us to record the depth per acre at any given time and place. Does any one imagine that the record will be varied if the gauge be made of gold instead of zinc? If we modify the instrument from time to time that the records may be constant, will the actual rainfall be affected, or its distribution? Is it not, then, irrational to maintain that price records are affected by the material of the credit medium; or that by varying the quantity of the material in the unit you will secure uniformity of value in the commodities? Price—the monetary equivalent of commodity value—is determined by dividing a unit of value by the number of units of quantity obtainable in exchange, and expressing the result in terms of money. In economic language, price is the ever-varying ratio of quantity to value—or of value to quantity, if regarded from the buyer's point of view—expressed in terms of currency. Uniformity of price-record implies that this ratio is constant, an assumption wholly at variance with daily experience, which proves it to be in a state of perpetual flux. It is the function of a monetary unit to

* These are the Bank of England Act of 1833; the Coinage Act, 1870; and the Bank and Currency Notes Acts, 1914.

measure and record the variations from the norm, which may be defined as the average ratio over a long period.

In practical exchange the variation in price is marked by varying the number of units of quantity—or fraction of that unit—obtainable for the statutory unit of value; because all price quotations—which express the exchange value of the commodity—are defined in terms of that unit. The units themselves remain constant and function free and untrammelled. What possible advantage can be gained by changing one or other unit to secure constancy in price? The length of a 'piece' varies with the textile—cloth, calico, silk, wool, etc. Imagine the utter confusion in a draper's shop if the yard needed to be adapted to each textile that the length record of all pieces might be constant. The present system of establishing price by means of stable units is difficult enough under the ever-varying conditions—natural and artificial—of production, but who can picture the confusion worse confounded which must result if one or both of the units were made variable to secure uniformity of price.

The difficulty of those uninitiated in the mysteries of financial economics is this—if the gold content in the unit of value is to vary in ratio with the commodity price, how is the latter to be determined? Since price denotes the ratio of the unit of value to the unit of quantity, if the former be a variant, what is to determine price? And if the variation in price is to regulate the degree of variation in the unit of value, how is this to be done? The puzzle is insoluble.

The truth is that all fluctuations in price of finished products are determined by conditions antecedent to their actual exchange for the purpose of distribution or consumption; and it is not till this position has been reached that the finished product properly comes into contact with currency. It is on the exchange or marketable value of a finished product that price depends, and this is determined by the current cost of materials, power, labour and transport, and the current ratio of supply to demand. These are the factors which determine the exchange value of finished products, and the latter will not be altered one iota by varying the gold content of the unit of value, in order to make the price records of to-day tally with those of last month or last year.

This fact is constant. Be the value of the material whatever the Statute may declare, the exchange value can never exceed the day's estimate of the intrinsic worth of the commodities it represents, be they in quantity much or little. You cannot regulate rainfall by varying the diameter of your gauge, nor can you regulate purchasing power by increasing or decreasing the statutory value of your unit, which, like the rain-gauge, is merely a measuring and recording instrument.

The needs of humanity are perpetual and increasing, and until the production of necessities is scientifically adjusted to those needs—and this involves control of natural forces—variations in commodity values are unavoidable. The influence of finance on these variations—by interim speculative purchases, by the holding up of supplies and the many devices possible when commodities are brought into premature touch with currency—can largely be avoided by rendering illegal the handling of commodities without rendering service necessary to the consumer, and by retaining a form of currency which represents value in the direct form of credit, as do the Currency Notes now in use.

NOTE.—In this chapter the matter of credit is regarded solely from a national standpoint, because a national currency being regulated by Statute is of necessity confined to national bounds. The relation of one currency to another is a distinct matter, and will be considered later in the Chapter on Foreign Exchange.

CHAPTER II

CURRENCY

"Corn suffices for a city-state, copper for a small group of cities, silver for an isolated country, gold for an empire, paper for the relations between empires."

W. M. FLINDERS PETRIE.

IN the preceding chapter it was demonstrated that every commodity possessed an exchange value, the representation of which needed no material medium until delivery of its equivalent was deferred by one or other party to an exchange. In this case a representative medium became imperative. The development of the medium was sketched from its beginning in a verbal promise, through various stages, to its final form as currency. It was shown that for commercial purposes, money in the absence of commodities possessed potential value only, so that economically it could only be regarded in the same light as the verbal or written promise—as a credit-instrument representing a specified quantity of exchange-value redeemable in commodities, if and when available; that the form or the material of the credit-instrument made no difference to the commodity-value which it represented; that monetisation of gold—by assigning to the metal a fixed value apart from the commodities whence its exchange-value derived—was a step in the wrong direction, since it enabled those who could command the possession of gold to dominate not only the control of currency, but the whole field of production and exchange, and every phase of human activity.

It was also demonstrated that as fluctuations in price are due to conditions antecedent to the actual exchange, any attempt to attain uniformity in price by varying the unit of value to accord with the variations in price was an economic vagary, not to say an impossibility.

In the present chapter it is proposed to trace the economic origin and development of currency as representative credit. There is no need to consider at length the history of Currency, but in the quotation which stands at the head of this chapter, Mr. Flinders Petrie sums up his deductions from facts and social features revealed in the histories of Egypt and Mesopotamia. He finds that the beginning of the political life in Egypt arose from the invasion of a race from the West, bringing with them the practice of agriculture. By this means, supplies in excess of immediate requirements were regularly furnished, and the excess, being stored, at once supplied capital and a means of extending power and control, by utilising that capital as circulating credit. This paved the way for the City-state. He finds confirmation for this deduction in the remarkably similar distances between the early nome Capitals of the Delta—21 miles on an average—and of the early Cities of Mesopotamia—averaging 20 miles. Thus every part of the City-state was brought within practical range of the civic centre, thus facilitating the collection and distribution of the grain. The exchange medium, therefore, was originally a commodity, on which the continuance of life depended. He argues that no further development was possible until a less bulky form of Currency was provided for the purposes of taxation and the payment of services. With the advent of large supplies of copper—testified by the large tools dating from the close of the pre-historic age—united dominion or grouping of cities became possible, and thenceforward, down to Ptolemaic times, values were reckoned in copper. The next stage was silver, which, being more portable, allowed of extended dominions. The use of silver in Egypt together with gold became fairly general about 1500 B.C., and synchronised with the immense territorial expansion of Egypt. In Mesopotamia, the advent of silver is recognised on the Obelisk of Manishtusu, where land is valued both in corn and silver, the old corn just giving way to metal. A century later came the first great unification by Naram Sin. Mr. Petrie gives other historical illustrations, which those interested in this subject may find in his '*Social Life in Ancient Egypt*,' Chapter I.

The point to stress is the fact that, in earliest barter, the exchange medium was actually supplied by a commodity, and

that when metal was adopted it was originally one needed for useful purposes by the members of the community, and derived its exchange value from its utility. The introduction of the more rare and precious metals synchronised with the development and extension of the State itself and later of its trade. This throws light on the early development of a credit medium.

Since every credit derives from an asset, the possessor of an asset possesses a credit limited to the exchange-value of his asset, but unless there exists a market for the asset, the credit will be potential only. Given a market, the potential value becomes realisable, but will vary directly or indirectly with the constancy and extent of the demand. By many this will be deemed an economic heresy, but in the present stage of world production, producers are finding it more and more imperative to adapt the rate and character of production to demand, and the crisis in the Coal industry now prevailing—August, 1925—is due largely to the neglect of this common-sense precaution. It is evident that if production is exceeding demand, all productive effort thus bestowed is waste, and while it does nothing to enrich the community, does much to impoverish. Whenever production exceeds demand a halt must be called, and either fewer hours must be worked or fewer hands employed in the industry, either of which courses involves a reduction in gross earnings, or new uses discovered for the products.

It needs a close and constant watchfulness on the needs of the world at large and a more ready adaptation of production and transport to supply them. The real commercial success of production lies not in the cheap and rapid output of goods on the off chance of a sale, but in the careful observance of the trend of human life, a personal study of the ever varying requirements of humanity in a given habitat and the utmost endeavour to devise a means to satisfy those requirements, not with an eye to the amount of profit, but to the quality and workmanship of the goods and their fitness for the purpose designed. In other words, it means—as Mr. Henry Ford has so persistently preached, and so successfully demonstrated—that the aim of business should and must be not profit but service. The better the service, the more perfect will be the product, and the more perfect the product, the better return will it bring in kind to the

community at large, as soon as the monetary estimate of value is abolished.

There is no one—not even the babe in arms—who does not possess assets with an exchange value actual or potential. So long as life persists, everyone has powers of mind and body which may assist and benefit his fellows, and add something to the general well-being. A man's muscles and brain—Nature's gifts—are assets, and though individually these may be constant in quantity and quality, none the less their exchange value at any given time will vary with the demand for their employment. Even with the best machinery available to adjust wages to a fixed standard of living, and, when private employment is scarce, to ensure sectional employment on public works lest any become unemployable, the exchange value of labour must depend on the economic conditions resulting from the combined and reciprocal action on production, exchange and transport.

The remedy lies in the better co-ordination of the three factors and the prompt removal of every obstruction to their regular and harmonious action. We need the more careful adjustment of productive energy to demand—and this involves a preliminary study of conditions on the spot—the removal of any and every obstacle to the free and equitable exchange of products both nationally and internationally, and the co-ordination of transport to ensure prompt and regular delivery, and to decrease the waste, delay and overlapping which result from excessive competition. The more dependent any nation may be on the products of other countries, the more imperative it becomes to avoid every flaw which tends to waste in production, inequity in exchange, delay in delivery, and above all, unfitness for the purpose designed.

We have seen that every credit derives from an asset, since it represents the exchange value of that asset assessed by a national unit of value and represented by a national medium. These media, whatever be their form or material, we style in general terms "Currency."

We have now to consider whence currency derives, by what authority it is issued, and the manner in which, and the limits within which it functions.

Currency being the generic name for all credit media, and

every credit being based on an asset, the first step must be to determine on what assets national currency is based.

The assets of a Nation may be defined as the sum total of its wealth. This includes the extent and variety of its natural features and resources, the characteristic traits of its nationals, and the savings of past production. The latter may be invested as Capital in productive undertakings for the benefit of the community at large, or in those—such as usury—which benefit mainly the individual. Over the former man has little or no control, since they include climate, rainfall, soils, minerals, forests, harbours and the like. All of these are Nature's gifts, though some may need the application of human effort and intelligence to adapt them better to man's purpose, or to convert them into forms which contribute more freely to the support, comfort and enjoyment of life. For the other sources of wealth man is more or less responsible, seeing that the character of man depends largely on the education and training he receives, and the savings of past production on the thrift thereby engendered.

All sources of wealth are now held to be national property; and as in the body physical the governing brain controls every organ and directs every function, even to the regulation and distribution of the output and the disposal of the waste, so in the body-politic the Government—constitutionally framed and maintained by the body-politic as the brain is by the body physical—claims to control its nationals in person and property, and stands pledged to administer the output for the benefit of all, as it now endeavours to provide for the waste which results from its mode of operation. One often hears it said: "A. owns such or such property"; it would be more correct to say: "A. is the life-tenant of the property." The State affirms its ownership of all property by imposing a fee for the transfer of the tenancy at each death, and claims priority over the income for such sums as it may need—and Parliament sanction—for the protection and development of the country. The Government practically says to every member of the body-politic: "We will guarantee to you free enjoyment of your life interest in this property, provided you hold yourself and the property at the service of the State as need requires"—and it does this

under powers ceded to it by its constitution. Seeing, then, that in a free democracy the Government is vested with the control of all property held by its nationals, the sum total of the national wealth expressed in terms of the national unit of value constitutes the basis of National Credit. Economically, however, National Credit may be more correctly defined as the total value of national wealth assessable to taxation, since taxation is the instrument by which Government control is generally exercised.

(a) Private Credit—the exchange-value of an individual's property, assessed in terms of the national unit of value. Commercially it includes only such portions as are exchangeable, but non-transferable assets can always be rendered transferable by pledging them for a loan of Bank Credit.

(b) Public or National Credit—the sum total of all individual credits. This includes credit deriving from Capital, and also that deriving from commodities with which currency is alone concerned.

(c) Bank Credit—which is based solely on the convertible assets of the Bank of issue, including its holding of national securities and of currency. The cheques by which it circulates are a product of Banking—a part of its machinery, designed to restrict the quantity of Currency employed in its operations. For this form of credit the Government incurs no liability, unless and until the cheques be presented at the Bank for payment in cash.*

In a free democracy the safe-guarding of the national credit vests in the people, and is entrusted by them to their elected representatives. The Government of the day—acting under mandates from Parliament—alone possess the constitutional right to control and pledge that credit. It is for this reason that the consideration of the Budget and of the Finance Bill, which authorises its provisions, are debated only in the House of Commons. It is important to stress this fact, as it should bring home to every unit of the body-politic his own responsibility for the soundness and correct functioning of the currency he employs in daily exchange. From this it follows that any form

* This will be more fully dealt with in the Chapter on Banking.

of currency based on the National Credit must be issued by constitutional authority with Parliamentary sanction, and, in token of such authority, bears impressed upon it the King's effigy or some other national emblem. The fact that the form and material of any credit medium are most carefully defined and regulated by statute, and severe penalties imposed for any breach of statutory provisions, is ample evidence of this.

Since the control of Currency has vested in the people, any form of credit medium privately put into circulation, on demand, must be redeemed in currency. This is indirect evidence that the monetary value of a currency depends for its stability on the Statute of legal tender, and no matter what form or material the currency may assume, the statutory value is a constant equivalent for its face value in commodities. This, however, by no means implies that a sovereign should always purchase a constant quantity of goods. The mere idea is precluded by the fact that the sovereign is the unit of value—not of quantity—and its only connection with the latter is to differentiate, as the price current, the value of an unit of quantity under varying conditions of production and exchange. The 'Price Current' denotes the ratio of the unit of quantity to the unit of value at a given date, and by dividing the price current—a variant—into the unit of value, you obtain the quantity of articles or units of quantity which a sovereign will then command. As legal tender it will always command 20 shillings value in commodities at the price current. How large or small a quantity that value will represent will depend wholly on the cost of production and marketing, the quality of the product, and always—but especially so if the product is perishable—upon the ratio of supply to demand, but not one iota on the material of the credit medium. So long, therefore, as a currency circulates within national bounds—where alone it is legal tender—there can be no variation in its value either as money or as representative of commodities.

It may be asked, how is this to be reconciled with the expressions "dearer" or "cheaper money"—so frequently used. These expressions are never applied to money in the proper use of the term, but only to "Credit" redeemable in commodities which the money represents in visible form. They are usually employed to denote the charge made by Banks and others for

the loan of their credit, and could correctly be applied to money, only if on presentation of the credit-instrument for cash, the currency unit should then be variable.

Being measured by a constant unit, money cannot vary within its legitimate sphere of operation, and beyond that sphere it is no longer currency.

Prior to the passing of the Bank Charter Act in 1844, the metal value of a coin might vary as circumstances occasioned, but for true monetary purposes—as representing commodity Credit—its value was constant, provided it circulated in the form and manner prescribed by Statute or by some form of credit instrument redeemable on demand in currency. With the passing of that Act the conception of money wholly changed, and from an overhead carrier of values in the commercial factory, it became a new source of power, driving production, exchange, transport and every phase of human activity as it would. Those who supported the Act appear to have forgotten that constant value in the material of the credit medium was quite a minor consideration so long as its constant value in commodity credit was assured, and this had already been effected by the Act of Legal Tender. The measure was retrogressive, for the developments in Banking and financial policy generally pointed to an extension of credit usage rather than of the material medium. Force of circumstances in 1914 compelled the adoption of a purely Credit instrument as the currency of this country, and so satisfactory has its adoption proved, that a reversion to a metallic medium would be a decided reversal of normal development. Even the transfer of the Currency Notes to the Bank of England—thus tacitly placing our National Currency on a gold basis—is a step in the wrong direction. We need not a backward step and the resumption of a metal medium for domestic currency, but a forward movement extending to commerce universally the advantages of trading by a purely credit-medium which, as will be shown, is of such advantage to ourselves nationally. As Mr. Flinders Petrie puts it: "Corn suffices for a city-state, copper for a small group of cities, silver for an isolated country, gold for an empire, paper for the relation between empires."*

* It should be noted that in all cases relating to the individual Nation a metallic medium is adopted, but a pure-credit medium beyond National bounds.

Provided the paper be based on sound credit, all must agree. Economists seem slow to realise how potent a factor in promoting the world's peace, the international use of a Credit Currency may become. The history of finance throughout the period of the War and later has all gone to prove this. A national Credit circulating by a paper medium, has proved to be as effective as gold in every market in the Kingdom.

Since the suspension of gold-coinage, the total of Currency Notes in circulation—approximately £300,000,000—has been issued against direct hypothecation of the National Credit. The internal trade of the country in no way has been hampered thereby, for, though prices have generally advanced, this has been due to economic conditions—mostly alien to currency, and not to any change in the circulating medium.

As will be seen later, the adoption of gold for national currency involves the National Credit to an even greater degree than a circulation based directly thereon, and can in no way amend the security. The whole of our financial complications spring from the monetisation of gold, which by giving a fixed value to the material of a currency, enables it to function beyond its sphere and without the control of those responsible for its issue. Thus, though the direct use of a National Currency abroad is illegal, a credit-instrument, drawn in terms of that currency and deriving its exchange value therefrom, is there negotiable on terms dictated solely by financial considerations, and its face value is varied to suit the conditions.

Enough, however, has been written as evidence that within its proper sphere, a form of currency circulating solely as a credit medium, based directly on those commodity values which constitute the National Credit and rendered constant by Statute, is at once the most equitable, self-contained and scientific that can be devised, and at the same time it is the most simple in operation. It contains the three essentials of a sound currency—it is issued by Constitutional authority, it is constant at its face value in every market, and that face value can only be varied by the authority of issue acting by public decree. It possesses, moreover, three advantages over gold—it is based directly on the National Credit, it entails no wasteful and purposeless alienation of productive energy, but tends to economy in taxation, and

depends on the fixed value in commodities for which it is legal tender, not on the ascription of an arbitrary value to the material of the medium. Currency in the one case is the trained servant of free production, in the other the mercenary force of financial overlords dominating a world of commercial helots.

As demonstrating the lengths to which economists may be carried from erroneous views on or entire disregard of the origin and function of money, due to the adoption of gold at a fixed value as the credit medium, one may instance two points elaborated by Mr. J. M. Keynes in his *Tract on Monetary Reform*.^{*} In the first chapter Mr. Keynes comments on the inequity of a currency which fails to maintain a constant relation to commodity prices. He argues that a national lending money to his Government when the sovereign will command ' x ' commodities at the price current, suffers a financial loss, if, at the time of repayment it will command only $x-y$, where ' y ' represents the decrease in quantity consequent on an increase in price.

It would appear that here Mr. Keynes is confusing Capital with Currency. The one represents a fixed credit, the other credit in circulation as an aid to exchange. All loans represent Credit put out on usury, which is Capital, and since National Currency, as we shall see, is limited in amount to the normal requirements of daily exchange, loans can only represent Currency in the form of Bank Credit—a substitute. Even interest on the loan is paid in Bank Credit, and has no direct connection with Currency—with which alone price is concerned—unless and until it be encashed for purposes of exchange.

But apart from this, the whole contention is a fallacy. There is but one method of measuring the value of national property—by means of the national unit. The basis of value may be furnished either by its assessment to taxation, by its average yield if invested, or by a comparison with the value of similar property recently offered in open market. Grant, however, for the sake of discussion that, as it is possible to convert Capital into Currency through the intermediary of Bank-Credit, and, so, to bring it into indirect relation to price, we may adopt the price basis for assessing Capital values. We may then measure

^{*}J. MAYNARD KEYNES, "A Tract on Monetary Reform." (Macmillan, 1923).

the value of the loan to Government in two ways—the first, by the National unit, the second, by its relation to the current index of prices. But whichever method we adopt we must apply it to the whole property of which the loan forms a part, and judge the value of the whole by the same method, both at the time of lending and at the date of repayment.

A loan—whatever its amount—must represent a definite fraction of the lender's whole estate, and—excluding interim variations—will, if intact, bear the same ratio to the whole at the time of repayment. Any change in the ratio must result from increase or decrease in the corpus of the estate and not from the loan, which is constant. Assuming the fraction to be constant, the loan measured by the Statutory unit can show no variation between the value lent and that returned. If, on the other hand, we assume the property to have been valued in terms of the price index, the part loaned will still bear the same ratio to the whole as before, and so long as that ratio is constant, the value cannot possibly be affected by variation in the price index. Grant that the ratio of the loan to the whole estate be as 1 : 10, and that the price index rises from 100 to 170. The ratio must still remain the same for $1 \times 100 : 10 \times 100 :: 1 \times 170 : 10 \times 170$ —one-tenth. Again, if the lender is justified in the one case in demanding an increase in amount because prices rise, the State with equal justice, would claim to pay less if prices fell. The purpose of the argument is to support the new economic craze, to stabilise price records by falsifying the unit of value, by which price is measured.

As shown in Chapter I,

$$\frac{\text{unit of value}}{\text{quantity}} = \text{price current per unit of quantity,}$$

and this price current is admittedly a variant, even when the units of value and quantity are both constants. It is not conceivable that price can be stabilised by rendering either of these constants a variant. Nor is it conceivable how price is to be determined if the unit of measurement is to be continually in a state of flux.

So far as can be judged, Mr. Keynes has taken as his determining factor the price ruling in that country which, for the time being dominated the international exchanges—then America. But what right has America to dictate the value of the British

unit? It is fixed by Statute law, and if this is to be set aside to meet the requirements of the American dollar price, to what lengths may not American interference in British affairs be carried? It may be urged that the interference is involuntary, and results from abnormal working of the existing system—an International exchange based on the Gold Standard—reacting on domestic prices. An argument admittedly sound for a complete revision of our present system of international finance, but certainly not for the interference of one or more nations in the domestic concerns of another. The extent to which such interference may go was well exemplified by the issue of the Austrian loan in 1922, under the auspices of the League of Nations. In that issue no less than eleven nations were involved either as subscribers or guarantors, or both, though under a proper system the issue should have concerned Austria and a Central Authority alone. Such methods make not for the peace of the world, the promotion of which is the *raison d'être* of the League.

In these proposals, Mr. J. M. Keynes would seem to follow Professor Irving Fisher, whose suggestions were dealt with and illustrated in *The Statist*, September 24th, 1921, pp. 466-8. The result of the proposals must inevitably be the introduction into National currencies of the speculative features from which in their proper sphere and functioning they are at present immune—thanks to their stable units. Under our present system the units of value and quantity remain constant, and variations are met by exchanging more or less of the one or the other unit, as the conditions of production and distribution require. What real advantage is to be gained by tampering with National decrees to ensure uniformity of price records remains a mystery; for, if price is to be a constant, it can be as readily expressed in terms of a larger unit as by those of a smaller. The only result must be to rivet more closely the fetters imposed on industry by finance.

The truth is that, for domestic exchange, with sound currency laws firmly administered, any change in the Statutory unit is wholly unnecessary. The need arises only when a National Currency is compelled to function outside its legitimate sphere. The remedy for that is not to falsify what is now sound in our

currency system, but to reform the system with a view to eliminate those features and possibilities which evoke the need.

Before, however, making any suggestions in this direction, it will be necessary to see how National currencies are brought into commercial touch with one another, and this brings us to Banking, the agency through which it is done.

CHAPTER III

BANKING

"The bankers who do straight banking should regard themselves as the first men to probe and understand our monetary system—instead of being content with the mastery of local banking-house methods."

HENRY FORD, "My Life and Work."

FEW business men would seem to be aware that banking, like brewing, is a licensed industry, although the conditions which attend the issue of currency require that it should be so. Currency, being part of the National Credit made visible in order to facilitate daily exchange, its issue naturally vests in the Government as guardians of that Credit; and, inasmuch as the handling of money is a most profitable business, no Government would be justified in parting with any portion of its monopoly, save for a consideration of value and on terms dictated by itself.

The charge for a Bank License is £30 per annum, and in these hard times there would seem to be reason for a substantial increase in the fee, considering the very large return on the Capital employed, and, a far more important consideration, the fact that in adverse circumstances the risk involved in their methods of business must be shouldered by the Government—witness the events of September, 1914. It may be questioned, too, whether the dividends distributed on Bank shares are not unduly large, and suggestions have been made to restrict the dividends derived from a State-controlled and State-insured convenience—in the same way as is already done in the case of water, light and power.

A Bank, on commencing business, has first to secure its license, and, this being granted, to purchase from the Bank of England—the agents of issue—a supply of currency, which is its stock-in-

trade. This posits that the Government has already issued a National Currency.

Since the object of this book is to diagnose the monetary ills from which commercial exchange at present is suffering, with a view to suggesting a sound, practicable, and universal remedy, a clear comprehension of the origin and function of a National Currency is of the first importance if the diagnosis is to be sound and correct.

In the preceding chapter it was shown that the three essentials of a sound currency are :—

1. That it be issued by Constitutional authority and based on National credit.
2. That it be constant at its face value in every market.
3. That such face value be variable only by the authority of issue.

Unless a currency possess these three essentials it contains within it an element of unsoundness which is bound to develop under stress.

The first step, then, in an issue of National Currency is Parliamentary sanction, which is given by a Statute defining the nature of the issue, the form in which it is to circulate, and the material of the circulating medium. If this is to be metal, the fineness of the metal—the proportion of alloy permissible—is clearly specified as well as the form and metal content of each coin. Limits are also imposed to the variation in weight allowable at the time of issue—‘the Remedy,’ and during circulation—‘the minimum legal tender.’ If the currency is to circulate as representative credit—by paper, in the same way as Bank Credit circulates by cheque or notes—the form and legend will also be prescribed, or authority given to the Treasury to approve the same. Be the material of the medium metal or paper, it will bear the impress of the King’s effigy or some other national emblem to signify that it is issued by Constitutional authority. The amount of the issue, as we shall see, will be regulated automatically by the requirements of domestic exchange, and these, in turn, by the national prosperity, industrial activity and the standard of living.

The first point to note is that the circulating medium—no matter what its material may be—acquires its monetary value

from the National Credit, though its intrinsic value must derive from the commodities and services which constitute the assets on which that credit is based. Indeed, the first credit-media known were corn and copper, the former being gathered as taxes and re-issued as maintenance for those employed on Government service, and the latter exchanged locally for other goods, at a value determined by its utility for tools and implements.

In pre-War days, when the Gold Standard was in full force,* the British unit of value was the Sovereign, a coin containing 123.27447 grs. of monetary or Standard gold—a mixture of 22 carats of fine gold with 2 carats of alloy. As the value of fine gold was fixed by Statute at 84s. 11½d. per ounce, an ounce of standard gold when coined represented 77s. 10½d.

How was this pure gold obtained? By pledging the National Credit. It matters not whether the country produces gold or not, the State can only acquire it by purchase and must raise the requisite funds by pledging the National Credit. Great Britain possesses no gold in payable quantity. It must therefore purchase it from abroad, whether directly or indirectly through its own Nationals makes no difference to the fact. The National Credit must in any case be pledged either by the direct issue of Government securities to the vendor, or to provide funds to purchase obligations of the vendor's country. Under a gold standard, therefore, the purchase of gold must entail a charge on the National Exchequer equal in amount to the full reserve held by the Bank of England to meet foreign commitments of Banks and traders. Other than the loss from usage, the gold coinage in circulation entails no cost to the Nation, since Banks can only acquire it by the surrender of National obligations of equal amount at current prices. In addition to the cost of reserve the Exchequer will have to meet interest charges on that amount, for the full term during which the securities run. It makes no difference whether the securities are issued to foreigners or nationals, save that in the former case the interest may go abroad, while in the latter it would probably remain at home. Nor will the interest charge be affected by the term the security has to run, though where the term is short—as in Exchequer

* See Coinage Act 1870, Schedule 1.

Bonds—the interest is usually deducted as a discount at the time of tendering, and varies with the current Bank rate. Pledges, however, have to be redeemed and securities mature, and since every form of international borrowing must ultimately be redeemed in commodities or services, it is at once evident that a Gold Standard, sooner or later, must entail a charge on the productive energy of the nationals to the full value of the Gold held.

A comparison of a currency based on gold with one circulating as pure credit in the form of notes will show that, for domestic circulation, the use of gold is wholly unnecessary and, therefore, gross waste. Between September, 1914, and the end of April, 1925, the operation of the Bank Charter Act was suspended, the export of gold was forbidden, and Currency Notes took the place of sovereigns. On April 29th, 1925, the export of gold, under specified conditions, was again permitted, but the National Currency still remained a pure Credit, circulating by notes based directly on the National Credit and equal in monetary value to the sovereign—a further proof that monetary value derives by Statute direct from the National Credit. The total amount of Currency Notes has, of course, greatly varied with times and circumstances, and the demands for local expenditure occasioned thereby. A glance at the Currency Note Return issued every Thursday will disclose that for some time past it has stood in the neighbourhood of £300,000,000, and now stands approximately at £295,000,000. Against this total the Treasury holds £56,250,000 in Bank of England Notes, £7,000,000 in silver coin, and some £232,000,000 in Government Securities. Until April 28th, 1925, the Bank of England held specially for this Note issue £27,000,000 in gold, but this has now been transferred to the Issue department, and replaced by Notes of equal amount—nominally repayable in gold. Thus five-sixths of our present currency is based directly on the National Credit, and one-sixth on Bank of England notes, representing gold purchased by hypothecation of that credit.

It may be asked—If Currency Notes are a direct hypothecation of the National Credit, what useful purpose is served by holding other State obligations as cover for the notes in circulation? This brings us back to Banking.

When a Bank applies to the Bank of England for a stock of currency, it pays for it by the surrender of Exchequer Bonds or other form of National obligation, which one and all carry a dividend and are, therefore, a source of profit to the holder. Currency carries no dividend, so that the Bank pays for its stock-in-trade like any other trader by surrendering a source of profit, but, unlike any other trader, distributes it to its customers *without profit or charge*. These securities are those which figure in the Returns of the Issue Department of the Bank of England and of the Currency Note Department, and they furnish the direct evidence of the States' liability in respect of its Currency. They are the purchase price of currency issuing from the State Treasury, and, by substituting a form of Credit obligation which bears no interest for one that does, the issue of currency as a pure Credit effects a saving and not an additional burden on the National Credit, nor does it lock up any portion of the National assets.

These securities, however, serve another most useful purpose. They are practically placed on deposit, and, by making them redeemable at any time by the return of the currency issued against them, they act as a safety-valve to guard against inflation of the circulating currency. Thus the amount of currency circulating will always be controlled by the requirements of domestic trade. This helps us to appreciate not only the great convenience provided by a circulating Credit to assist domestic exchange and the care which is taken to protect it, but also the service rendered by the Banks in purchasing—at a sacrifice to themselves—large stocks of the credit medium and placing it within easy reach of their customers at their numerous branches, at any time and in any quantity, *free of charge*.

By this ready and free provision of the Credit-medium, the whole community is spared the trouble and inconvenience—not to mention the risk—which would necessarily be incurred under modern conditions had each to purchase supplies direct. It is due to this issue, too, that every worker is enabled to concentrate his energies on a single employment for a single employer—both of his own selection—instead of distributing it among many and wasting much of his working day in journeys to and fro. He receives payment as wages in the current

medium, and knows, when he accepts it, that he can exchange it at its face value for any commodity or service which he may select.

The last essential—that the face value can only be legitimately altered by the Authority of issue—is evidenced by the stringent measures enforced to suppress infringement of the State's prerogative, by coining, forgery, or depreciation of the currency in circulation. Nor do the severe penalties imposed on convicted offenders act wholly as a deterrent. Despite the most careful surveillance, forged notes and base coins find their way into circulation. The penalties are justly severe, for the act is a wholesale fraud on the community at large, since it tends to shake public confidence in the medium of exchange, and the power of the Government to defend national prerogatives. Specifically it is a malversation of an instrument, designed to benefit all, into a means of inflicting on all and sundry a far greater injury than that which results from the use of light weights or false measures.

So far, then, as our domestic exchange is concerned, the medium now employed is sound in structure, convenient in its functioning and free to all. In its present form of Currency Notes it is also economical, and tends to reduce rather than enhance the National expenditure.

As a business venture no Bank can be expected to trade on other than economic lines, nor to stock more currency than it can conveniently deal with. On the other hand, the Bank's Credit depends on meeting promptly all requirements of its customers. What then should be the right proportion of currency to liabilities to hit this happy mean?

It is an axiom of finance that currency functions five times a year. From this it might be inferred that Banks would need a stock of currency equal, say, to one-fifth of their liabilities to customers, or to meet all contingencies, say, one-fourth. Practical experience, however, proves this to be unnecessary. Provided that the issue of currency slightly exceeded the average domestic circulation, and that the Bank of England held a reserve of its notes, Banks were able to function on amounts varying from $12\frac{1}{2}$ to 15 per cent. instead of, say, 25 per cent. of their liabilities, domestic and foreign. For domestic

needs alone a still smaller percentage would have sufficed without undue risk, seeing that so few of the cheques drawn on any one day were ever presented for payment in cash, but were for the most part cleared by a transfer of Credit from one customer or Bank to another. Thus a large proportion of the domestic exchange came to be transacted by the media of cheques representing Bank Credit, and, as a consequence, Bank Credit was deemed quasi-currency.

It is most important to note that Bank Credit instruments lack the first essential of a sound money—they are not issued by Constitutional Authority, are not based on the National Credit, nor does Parliament exercise any control on their issue or amount. Hence it results that while under normal conditions Banks derive large profits from the issue of Bank Credit, the risks and difficulties arising therefrom in abnormal times must be shouldered by the State, and special provision made to obviate them, lest the National Credit should suffer. It will be readily understood that with a Gold Standard it is to the public advantage to limit—so far as is prudent—the amount of coin in circulation, and the Treasury readily recognised the public saving resulting from the use of cheques in lieu of coin for domestic exchange, and extended to the instruments of Bank Credit the like protection as was given to the currency itself. It is strange that it has never occurred to any Chancellor of the Exchequer or an able Treasury official that by circulating credit internationally, by credit instruments in lieu of gold they could adopt the system in its entirety. The origin and function of money has become so overgrown with the rank heresies of finance that men's eyes are blinded to its true purpose and design. So far as legal action can assure it, all instruments representing Bank Credit, are safeguarded against alteration of their face value by Statutory enactment. Hence the passing of a forged cheque, or one drawn on an account non-existent or not 'in credit,' falls legally into the same category as the passing of counterfeit coin, and an alteration in the face value, unless initialled by the drawer, is equivalent to the sweating of gold coin. It is evident, however, that being Statutory, any protection which the law can afford to circulating Bank Credit must be limited to National bounds.

Not only domestic exchange is transacted by means of Bank Credit, but the *whole* of international exchange is effected on the basis of individual or corporate credit through the intermediary of Banks, and the majority of the instruments are put in circulation by the Banks. Every credit instrument expressed in terms of a National currency is payable in that currency, and in that alone, hence every credit instrument circulating abroad must be returned to the country of issue before payment can be claimed. Since no National Currency is legal tender beyond national bounds, a State's obligations in respect of its Currency are limited to those bounds and its action in respect of that Currency must not only be wholly independent of, but can take no account of a use which is admittedly '*ultra vires*.'

This was recently demonstrated by the action of Germany who, finding herself unable to cope with the continued depreciation of her currency—engineered by financial and commercial magnates, and eagerly seized upon by others for purposes within the letter but wholly adverse to the spirit of the law—put an end to the farce by the issue of a new currency based on a clearly defined property Credit, measured in gold. The issue of paper currency was not wholly inflation in the truest sense of the word, because it was required by the wholly abnormal conditions resulting from financial scheming, though connived at and shared in by the Government as a means of discharging State debts to its own Nationals. As a result, both public and private debts were wiped out on the easiest terms, and in Germany taxation is to-day far below the level in our own country. With a settled and united Government such an abuse of public credit would have been impossible. In the readjustment issue no account was taken of the holders of paper marks abroad, nor was it necessary, since the Government could justly contend that the policy of inflation had been fostered by their illegal withdrawal from circulation of thousands of billions of paper marks.*

There is a wide difference between an issue of currency and

* Since this was written the proposals for the conversion of the Mark Loans into Loan Liquidation Debt have been published by the Reichsbank. The terms of that Conversion wholly ignore the rights of foreign holders to any special consideration.

of a National Loan. The former can only be brought into circulation by the surrender of National obligations previously issued, while the latter, as a borrowing of Capital, entails a definite and continued charge on the National Exchequer until redeemed. Thus the one is merely a change in form of an existing obligation tending to economy, the other the creation of a new charge involving additional expense.

In issuing an exchange medium with a statutory and constant value, a Government incurs two obligations and two only. The first, that the amount of currency shall always suffice for the daily requirements of domestic exchange; the second, that its face value shall only be variable by Parliamentary decree. The first necessitates a slight excess beyond the normal needs, to meet seasonal demands occasioned by holidays and recurrent phases of industry—harvesting, fishing, etc. As, however, the busy time in one industry is generally coincident with a slack time in others, the increased demand may generally be met by the transfer of currency from one centre to another.

The need for large holdings of currency by the Banks was, as we have seen, obviated by the introduction of credit-trading by the means of cheques, which represent Bank Credit in the same way as a Currency circulating by Notes represents National Credit. There is, however, this most important difference, that while National Credit is elastic and so permits of an increase in currency equal to all demands for domestic exchange, that of a Bank is strictly limited, not to the total assets, but to such portion of them as are readily convertible into currency. This compels Banks to keep their assets in liquid form so that no Bank can loan its Credit to customers with safety, unless the security pledged is not only sound but readily realisable in the open market; and no borrower can with safety employ Bank Credit for other than temporary purposes without incurring grave risk should the Credit be withdrawn. Disregard of these facts contributed largely to the downfall of Farrow's Bank, and no less recently has caused difficulty to many productive undertakings, and given rise to much unmerited ill-feeling towards Bank officials.

A reference to the monthly Statement of our leading Banks at the time when the Gold Standard was in full force would show

that they could work efficiently, and face all liabilities with no greater proportion of cash to liabilities than 1 to 8 or 1 to 7. It is more than probable that a still smaller proportion suffices now that the currency is directly based on the National Credit. The tendency to hoard would be restricted and the use of cheques encouraged, there being little reason—when both are credit instruments—to prefer the National Credit-medium to Bank Credit, which on demand is payable in that medium.

It may come as a surprise to many that a community of some 45,000,000, whose business transactions—as recorded by the Bankers' Clearing House—represent some £40,000,000,000 yearly, can transact its financial affairs with a Currency of some £300,000,000—only three-fourths of one per cent. of the turnover, and to learn from the 1925 report of the same institution “that the daily transfers aggregating this enormous amount of money have been made without any call upon the Currency of the Country for its assistance in effecting a settlement.”

The first of these results from three causes—

- (a) The domestic turnover represents but a portion of the Nation's business;
- (b) Few except retail transactions are effected by cash, and, as the large retailers pay in the day's takings every afternoon, a large portion of the cash issued during the day is replaced by cash paid in;
- (c) A small proportion only of cheques representing Bank Credit, though nominally payable in currency on demand, ever require such payment.

We can understand, therefore, that the small proportion of $\frac{3}{4}$ of one per cent. would represent a much larger percentage of the domestic turnover to which its functioning is restricted, but what portion of the aggregate represents domestic trade it is impossible, in the absence of data, to determine.

There is less occasion to marvel at the statement that the adjustment of daily balances at the Bankers' Clearing House is effected without the aid of Currency. Every instrument

there handled represents Bank Credit, pure and simple, and is issued on the Bank's initiative and responsibility.

To assist the adjustment of these balances every Clearing Bank has a Credit account with the Bank of England, and the Credit and Debit balances are adjusted by a transfer from one of these accounts to another, the Bank of England being left to issue any advices necessary to its Banking customers. The Bankers' Clearing House does not concern itself with instruments remitted to this Country for settlement in cash, and these are the only transactions in which National Currency would be involved.

For these—now that the Bank Charter Act has been in part restored—the Bank of England provides by its *reserve* in gold, and this, as published returns show, is at present 'Nil.' Take the figures for January 19, 1927. Against a Note Issue of £169,985,485—of which £56,250,000 is held on Currency Note Account—it holds a stock of gold coin and bullion approximating £150,235,485, the deficit being covered by Government and other Securities vendible for gold, if required. The explanation is that the Bank of England Notes being covered by gold at their face value, are as readily acceptable by Foreign Banks as gold itself, and only to meet special demands—generally due to finance—is gold required.

It would be interesting, did any data exist, to differentiate the respective financial and commercial claims which form the enormous aggregate of £40,000,000,000, and to calculate the amount of Bank Credit circulating commercially for which the nett gold stock—£161,000,000, less £56,250,000, representing Currency Note Reserve—acts as cover. The absence of all data renders any calculation the purest guess-work, however probable the premises. It may, however, be pointed out that as the Government responsibility is limited to the National Currency and, consequently, to National bounds, all circulation abroad fostered by the Banks, should legitimately be protected by the Banks. Unfortunately, however, the demarcation of the bounds between commerce and finance, under the existing system, is so complex and involved, that it is difficult to differentiate the use of Bank Credit for finance—which concerns only the employment of Capital, and for commerce—the actual exchange of products, with which alone currency is concerned.

So long as it is open to Bankers to issue without restrictions a form of Credit, expressed in terms of the Currency for which they act as licensed agents for the Government, it is impossible for the latter to escape indirect responsibility. However careful they may be to limit and safeguard their own issue of National Currency, they are powerless to control or limit the issue of Credit instruments by the Banks for circulation abroad, seeing that they countenance its usage at home.

One can well appreciate the expression of the American delegates to the Peace Conference at Versailles who, when requested to draw up recommendations for formulating the reparation and Economic Sections of the Treaty, recorded as their firm and considered conviction — "What the world requires, and requires immediately, is a new basis of Credit." One may express the same truth in other words by saying—the great requirement is a general comprehension of the true basis of Credit, and the demonetisation of gold which lures them to mistake the shadow for the substance. Governments, in these democratic times, should have outgrown class legislation, and certainly should not countenance the support of private or class interests against the welfare of the community and its industries. The limitations of its liabilities in respect of its Currency to its legitimate sphere of operation is rendered impossible, and, there being no means of differentiating Bank-Credit instruments relating to commerce from those dealing with finance, they are forced to shoulder responsibilities for those with which the State has no concern—seeing that they tend to individual profit, as well as for those for which they may be deemed liable indirectly—seeing they concern the well-being and industry of the Community.

Without, however, attempting to apportion the respective contributions of commerce and finance to the vast total of £40,000,000,000, a comparison of this figure with the small provision made for cash settlements will help us to understand how small a part gold really plays in the world's Currency system, and will fill us with wonder that such a minor part can cause so much havoc in human affairs. How grossly unfair is it and no less unscientific, to estimate a National Credit by the store of gold in its Exchequer—when so little will suffice—and

to pay no heed to the natural resources and productive powers of the people on which the true value of gold as representative credit depends ! How false is the perspective of values, and how distorted the view of commercial interdependence, that will only furnish this slight amount of monetary support to a Nation of great productive capacity on terms which are bound to impose a severe handicap in productive competition ! To refrain from ready assistance on just and equitable terms is an acknowledgment of inferiority in character, resource, skill, or intelligence.

The consideration gives rise, also, to the question—If Bank Credit based on gold held by individual Nations can circulate freely on such an exceedingly small percentage of the metal, cannot an international Credit circulate by cheque as pure Credit on a much more liberal percentage of gold, to be held as a conventional equivalent of value, seeing that no international assets exist. This percentage reserve would be furnished by each Nation participating *pro rata* to the amount of Credit issued to each on uniform terms and conditions. But this must form the subject for a later chapter.

This brings us to the question :—Does Bank Credit as a national medium of exchange satisfy all three requirements of a sound Currency, and is it the best and most convenient arrangement that can be devised ? The answer to this question will depend on the form in which the Currency circulates the basis on which it rests, and the efficiency with which National laws are administered. Applied to British Bank-Credit as at present constituted and administered, the answer is an unqualified affirmative ; for, it must be remembered, that the law, which makes it penal to issue a Credit instrument without due provision made for its redemption, applies to Banks as well as to their customers. Hence a Bank draft is always drawn on some other Bank with which the drawer has a Current credit. Since then it is a condition of issue that Bank drafts shall always, on demand, be redeemed in currency, they may for all practicable purposes be deemed currency, and as possessing all the characteristics and advantages of the Currency, *so long as they circulate under the same conditions and with the same limitations.*

Though not issued by Statutory authority, but on the Bank's own initiative and, without other limit than that dictated by

financial prudence, they receive legal protection at home against the evils latent in their constitution; but once National bounds are passed, all legal guarantees for their stability are withdrawn, and they are no longer sound, since they represent and are based on a form of Currency there unrecognised.*

Abroad, therefore, the instrument possesses a potential value only, and to render this value locally realisable the instrument must become a mere financial product—a commodity, and, as such, amenable to the economic laws of supply and demand. A purchaser must be found who requires Credit on the place of issue to meet obligations there incurred, and the price paid for the draft or bill will depend mainly on this demand.

Some may urge that no account is here taken of the requirements of finance—as distinct from those of commerce—which materially aid in rendering the drafts transferable, and so benefit the trader. Admitted—and for the reason that they are distinct. Finance, as here defined, is concerned with the investment and working of past savings—Capital. Commerce has to do solely with the exchange medium of present production—Currency. Over the former the Government, apart from domestic taxation, has no control; for the latter it has provided a medium of exchange, which, within its own borders, it renders stable and secure. Its usage abroad is *ultra vires*, but, none the less, Governments are bound—*nolens volens*—to take all possible precaution lest such usage should depreciate their National Credit. The true use of National Savings is to benefit—whenever and wherever possible—the *nation* by whose productive efforts they were acquired, and under whose protection the benefits therefrom are enjoyed. To facilitate their transfer abroad by safeguarding the abuse of a National instrument, designed for other purposes, is a policy of financial suicide, and a hindrance to national development.

* In the *Times* of September 16, 1925, there appeared a communication from its correspondent at Constantinople commenting on a decision of the Supreme Court—"The circulation of foreign currencies is prohibited in this Country." The deduction made therefrom was that a person who had contracted an obligation in a foreign Currency could only be condemned to pay in Turkish pounds, and at the rate of exchange ruling on the day when the contract was made. A proper ruling. See the subject discussed on page 65*f*.

To sum up.

Nationally—for domestic exchange—our present system of Currency—circulating by a medium based directly on the National Credit, entailing no charge on the community, at once self-contained and self-maintaining—fulfils every function of a sound money. It derives its value direct from the assets, whose transfer it facilitates, and carries that value—unaltered and unalterable—into every National mart. It is brought within easy reach of all by the Banks, who purchase it in large quantities from the Bank of England—by surrendering other forms of National obligation—and place it, without charge, at the convenience of customers at their numerous branches. The Banks surrender a productive form of National Security for one that is sterile, and so, if at any time their stocks prove excessive, are justly entitled to surrender the overplus and reclaim the securities deposited. In this way the needs of domestic exchange automatically regulate the amount of currency in circulation.

Internationally it fails, not from any inherent weakness, but because it is called upon to function outside its proper sphere, and is there made subservient to other interests over which the Authority of Issue has no control. A Currency being a National device, dependent for its true functioning on National Statutes, cannot function beyond National bounds. The attempt to make it there function uniformly, by giving to a material medium an artificial value wholly at variance with its intrinsic worth, has proved a disastrous failure. The metal, carrying a recognised value apart from commodities, can be made to circulate without regard to commercial needs, and thus a means designed to aid commercial exchange is able to dominate not alone every detail of commerce and exchange but every phase of human activity.

Commercially gold circulates with the balance of trade, for until the normal imports of a Country persistently exceed its exports in value, there is no need for any movement of gold, save that induced by financial manipulation of Credit instruments issued by financiers themselves, for which they are directly, and should be wholly, responsible. Unless the imports of a Country exceed its exports, payment for its surplus products must be made in gold, and this gold accumulating ceases to be

Currency, and can only find profitable employment in finance, *i.e.*, in usury. As gold is limited in quantity, the holders of the world's Currency gold possessing goods or produce greatly in demand by others, can dictate the terms on which gold will be received, and so bring the world into financial helotry to itself.

The world's curse to-day is that through the intermediary of Bank Credit its monetary supplies can—and do—so far outrange its Currency needs, that it not only induces usury—the desire for personal gain without personal effort—but makes the use of currency for commercial needs subservient to its own requirements.

We legislate to ease the bonds imposed by money-lenders on fools and spendthrifts, but we also legislate to rivet more closely the fetters imposed on the workers and traders of the Nation by usurers of another class in their acquisition of gain by the medium of Currency.

CHAPTER IV

FOREIGN EXCHANGE

"The limit of political and extensive exchange depends on the transmissibility of payments."

W. M. FLINDERS PETRIE, "Social Life in Ancient Egypt."

IN the last chapter it was shown that the form of currency now circulating in Great Britain is at once sound, economic and convenient, and had the world an International Credit; functioning and circulating by a similar medium, the interchange of commodities between nation and nation would be as regular, constant and equitable as it is locally between mart and mart, or between producer and consumer. It must not be forgotten that though price, rightly considered, does not depend on variations in monetary value—within its legal sphere none such can occur—but on the cost and conditions of production and exchange, both these factors may be gravely affected by the want of stability in the form of currency we have now to consider.

There exists no International currency issued by constitutional authority on an International Credit basis; nor does there exist any International Body constitutionally vested with authority to make such an issue, nor with any power, such as is possessed by National Governments, to tax international property, did any such property exist. Hence the world's trade has to be done on credit instruments, not issued by Constitutional Authority, but by private corporations on their own initiative and on their own credit.

The Government of the Nation whence these instruments issue are only so far concerned in the issue, in that, being expressed in terms of their National Currency and redeemable in the same on demand, they are bound to provide the latter in statutory form, should the instrument be returned to the

country of issue for redemption in cash. In practice the majority are never so presented, but are bought by Bankers or merchants abroad, with local currency or credit, for retransmission to the country of origin in payment of obligations there incurred by others.

On arrival they are presented by the holders to their Bankers, and the value is transferred to them in the form of Bank Credit through the Bankers' Clearing House. But though the connection of these instruments with the national currency is so remote, the commercial credit of the Nation is internationally assessed by the facility with which these private instruments can be negotiated abroad.

We are here faced by a twofold anomaly:—1. While no national currency is legal tender abroad, credit-instruments, representing such currency and redeemable in the same, are there negotiable. 2. Though, as has been shown, currency, whether in the form of gold or paper, in either case derives its monetary value from the National Credit in virtue of statutes running only within national bounds, the possession of a selected medium—gold, the monetary value of which is arbitrarily determined, is made the standard of a Nation's commercial stability without any regard had to its productive capacity and general well-being. It would be equally fallacious and absurd to assess the volume of London's water supply by the length, capacity and material of the mains which convey it from the reservoir to the consumer.

It may be argued:—Since gold is by custom accepted as the international credit-medium, its possession by a nation furnishes the only reliable test of the power to redeem its circulating credit-notes. The answer to this argument is that the nation not being concerned with the issue, it does not apply to the nation, but to the Bank or individual who issues the instrument. The terms in which it is drawn compel payment in statutory form at a Bank or office within the country of issue—they do not and cannot compel a Government to alter the form of its currency to meet difficulties which arise from its use beyond its sphere. Did a convention support the claim to demand gold in lieu of credit, the onus of providing the gold would rest on those who were parties to the convention. But no such convention exists,

and the claim can, therefore, only be substantiated where a gold standard obtains. Even then it is questionable whether Governments are bound to lock up national capital obtained by taxation, in order to protect the employment of private capital outside their own country. Their responsibility and guarantee of security do not extend beyond the domestic requirements of their nationals, and to make them responsible for extraneous risks is to foist on the public purse the ultimate provision for the risks of private enterprise for personal gain. If a financial turnover—domestic and foreign—totaling £40,000,000,000 yearly can be arranged without recourse to the national currency, there would seem to be little need to pledge the national credit to the extent of £160,000,000 as a guarantee for a circulation of that credit in the form of currency.

The inherent weakness of Bank Credit as currency—instability—is, in theory, restricted in its range to the gold points, when and so long as a gold standard is nationally enforced. This makes it possible to demand gold at Bank of England price should a vendor require it, or should a Bank instrument fail to be negotiable abroad on terms satisfactory to the holder. To urge that such variations may under favourable conditions be restricted, cannot alter the fact that the face value of the instrument can be varied by others than the drawer. While trade is normal these restrictions are seldom required—gold only being called for when adverse balances persist, and where conditions are abnormal, they become inoperative. In all cases the gold serves only as a credit guarantee, and its transfer implies that control of the credit guaranteed has passed from one person or nation to another. With a proper system the credit can be as readily transferred as the gold—*teste*, the Bankers' Clearing House Account with the Bank of England, and the Gold Settlement Fund of the United States. While circulating abroad the instrument can no longer be deemed quasi-currency, since no International credit or currency exists. It represents a monetary credit based on a currency, circulating as currency where the use of the currency itself is interdicted. Nor does it avail to urge that the variation in value, while current, does not affect the value of the instrument on redemption, and amounts to no more than a fair charge by the foreign Banker or Bill

Broker for services rendered. The argument might apply were we considering Bank Credit as an instrument of transfer only, but cannot affect the soundness of a monetary device which admits of variation while current and thus opens up, unnecessarily, a source of evil far outweighing any benefit which it may effect.

It needed the general upheaval of commerce consequent on the war to demonstrate the full scope of this evil and its disastrous effects. Even with a Gold Standard generally enforced, the gold points placed no check on the employment of Capital as Currency, and were no protection whatever to the transfer of gold in enormous sums where the needs or operations of finance so required. So long as a circulating Bank credit represented commercial exchange, gold was seldom called upon to function, the credit being easily transferable from one commercial centre to another until it returned home to roost. But this very transferability is now itself a source of danger, in that it renders the instrument an easy prey to the rapacity of finance, which alienates to its own use Bank Credit issued in the interests of commerce, and entails upon the Government provision for its redemption in cash—in gold, wherever a gold standard prevails. Thus, when the employment of Capital as currency—money-lending and speculation on the grand scale—became general, the needs of commerce became wholly subservient to the exigencies of finance. The distinction between Capital and currency was lost sight of, and the convention, by which Bank credit circulating abroad in the interests of commerce was made redeemable in currency, was extended to instruments having nothing to do with commercial exchange, save by their influence in restricting or extending commercial credit; seldom the latter, unless opportunity offered to make an intermediate profit from commodities before they came into touch with the wholesale or retail distributor—a profit which must ultimately be borne with interest by the buyer for use.

Nor can it be urged that it is the duty of Governments to assist *in every way* the profitable employment of past savings. Time, place and circumstances must influence that obligation. Savings result from the productive effort of bygone nationals, and are stored by national thrift. The proper use of them,

therefore, is to promote the improvement and development of national well-being, and, with that end, the secure enjoyment of them is guaranteed to the life tenant within national bounds. Nor is such use within national bounds inconsistent with a reasonable return to the life tenant. If, however, the life tenant is moved by the hope of larger gains to invest his Capital abroad, he must shoulder the risk incurred, and not expect his landlord to assist in removing the furniture by which the payment of rent is guaranteed. It is no part of the duty of a wise and prudent government to provide the means for transporting property, on which it has a prior lien, to fresh fields, where it has neither control nor the right to interfere, in order that the life tenant may profit at the expense of the community. It is a thriftless policy to build palaces abroad that a few may profit, and to tolerate slums at home wherein thousands are compelled to pass their lives.

With the use of Capital, however, we are not concerned, save only when Bank Credit enables it to pass as currency, and to dominate the provision made by governments to assist commercial exchange by a medium over which governments have no control, and for which their responsibility is so remote that £40,000,000,000 of Bank Credit can be transferred without its aid. The confusion which results when Bank Credit is made to represent both Capital and Currency, renders it possible to demand gold at Bank of England price for either or both purposes, and so imposes on the Government the onus of providing at the public cost for *all* foreign commitments incurred by its citizens, if called on so to do.

The evils which result from this two-fold demand for gold have been fully exemplified on many occasions. The following instanced by Mr. J. Monteith Douglas in a pamphlet on *Gold and Silver Money*, published by Messrs. Effingham Wilson in 1892, will serve as an illustration. In the summer of 1891 extravagant and alarming reports were current in Paris as to the condition of the French wheat crop, and the harvest prospects for the autumn. In consequence, the monetary situation became critical, and Messrs. Lazard, a French firm of financiers, drew from New York to Paris between July and the end of the year no less than £7,000,000 in gold. The writer of the American

Mint Report covering the year 1891 recorded that during the same year no less than £12,000,000 sterling in gold had been exported, notwithstanding that the current rate of exchange made export unprofitable as an ordinary matter of transfer, it being below gold point. The gold points, therefore, although a protection to commerce under normal trade requirements, afford no protection against the demands and devices of finance.

There were occasions in those days when the withdrawal of £12,000,000 in gold from the Bank of England would have exhausted its stock. Indeed, the reserve for the seven years 1885-1891, both inclusive, averaged only £13,700,000, and for the minimum average month only £11,645,000,* so that had the demands of Messrs. Lazard and others fallen on London instead of New York, the withdrawal would have either exhausted, or at least reduced to very small proportions the Bank's store of gold. New York was no doubt chosen in the hope that American Gold would give a certain priority in the 'Wheat Pit' of Chicago.

Another instance was furnished at the time of the Baring troubles, when the Bank of England—the world centre of finance—had, with permission as Treasury Agents, to borrow £3,000,000 sterling in gold from France, whose stock of gold in normal times largely exceeds that of the Bank of England.

In the years immediately preceding the Great War the scarcity of gold compelled the Banks to refuse credit even to their regular customers, and the business of the country suffered because the more important claims of finance, in filling war chests for purposes of destruction and waste, dominated the conservation of monetary resources to tide productive industries through the time of stress. To-day, the movements of gold are quite as pronounced, the returns for the week ending October 7th, 1925, showing a reduction exceeding £2,550,000.

The plea, so often urged, that the convertibility of notes and other credit-instruments into gold made London the monetary centre of the world, may be true from the financial view-point, but the experience of America in the last few years has proved that 'financial centre' and 'commercial centre' are not con-

* SIR R. H. INGLIS PALGRAVE, F.R.S., "The Bank Act and Bank Rate." (Effingham Wilson, 1892) pp. 27-28.

vertible terms, and it is on the latter that prosperity depends. A financial centre may so far influence the exchange market as to impair materially the productive activity of competitors. Such action is suicidal, since commerce can only thrive on the mutual exchange of surplus productions which these financial devices aim to check—under the mistaken impression that they will thus promote domestic production. The holding of gold certainly does not make for commercial activity, and, in the absence of such activity gold ceases to be currency and becomes a mere financial commodity—to be bought and sold at the cost of human suffering and the sacrifice of human development and human progress. The worship of the Golden Calf has ever entailed periodic holocausts of the many to glut the covetousness of the few. To decry the abuse of Capital is not to deny its place in the economy of humanity. Daily in our own bodies we have demonstrated the natural law that existence depends on human activity, and the concentration of energy, not for individual aggrandisement, but to promote the common weal.

The instances quoted fully demonstrate that while the use of Bank Credit at home is beneficial and productive of economy, it may, when diverted from its proper sphere, produce the gravest evils, wholly subversive of the object for which the instrument it supersedes was designed. It calls not for a tightening of the shackles of the Gold Standard, but for the relegation of gold to its proper position as a currency medium—the representative of commodity values—to which by mutual consent it has already been promoted. It calls for the introduction of an international credit constructed on a saner, sounder and more scientific basis, and in itself more stable, more equitable, more amenable to constitutional control than that which now obtains.

The need for such a credit is not without support from those in authority. As already stated, the American delegates to the Peace Conference at Versailles to whom was entrusted the drafting of the Reparation and Economic Sections of the Treaty, gave this as their considered opinion—"What the world requires, and requires immediately, is a new basis of credit." This needs but one amendment—the substitution of the word 'class' or 'form' for 'basis.' There can be only one basis of credit—assets, and in whatever form the credit be presented it must

represent commodity value. We need an International Credit—an aggregation of National Credits, as a National Credit is of individual credits—based on National assets combined into a general Reserve, as a guarantee of the credit. This guarantee may take any form provided its value be a real one and not arbitrary and artificial. There is no reason, therefore, why gold, the existing medium, should not be retained, provided it be correctly measured and held as a guarantee for the circulating medium, not used as a medium itself.

In commerce, a transfer of gold is only called for when either goods are lacking or the balance of trade persistently favours one of two nations. In finance, by the acquisition of securities representing gold and their disposal on the markets of the issuing country, the transfer of gold from any nation may be rendered imperative at a crisis in its commercial activity—the object being to cripple its vitality, or induced by financiers for their own purposes without regard to the interests of commerce which it is primarily designed to serve.

It is interesting and instructive to compare the view of this subject entertained by men of open and comprehending minds with the report of the Financial Committee of the League of Nations. The Report ran—"We believe that neither an International Currency nor an International Unit of Account would serve any useful purpose or remove any of the difficulties from which International Exchange suffers to-day."

It is evident from the wording of this report that the members of the Conference were well aware of the sources of instability and the remedies which needed to be applied, and so cleared the decks by ruling both out of court until the results of the disease should have disappeared. It was as though a Conference of medical men called to advise on the treatment of an epidemic, after diagnosing the symptoms, and agreeing on the cause, were to express the opinion—'Neither drugs nor surgery can effect any amelioration or afford relief until the distressing symptoms of the malady shall have wholly disappeared.'

The fact that a National unit of value had been made the unit of reference for all others in determining the parity of exchange involved each nation in the financial concerns of all other nations, and disturbances, from whatever cause arising—

political, industrial, physical or financial—were bound to be reflected in the exchange. With an independent unit based on a weight of metal and not on an arbitrarily assigned value, and an independent reserve controlled by a Central Authority, exchange would be immune from all National complications, and would function as regularly and uniformly as the best regulated National currency within its proper sphere.

It may interest some to learn how gold came to be generally adopted as the conventional medium for settling international balances.

Early in the nineteenth century the application of steam as the motive power of machinery, gave an enormous impulse to production, and led to the rapid development of the coal and iron industries. The impetus thus given to manufacture was sustained and reinforced by the invention of the spinning jenny and a series of discoveries and inventions, which quickly gave Great Britain a lead in commercial enterprise, and enabled her to extend her mercantile marine to which the discovery of foreign markets and foreign products was largely due. Thus the opening up of foreign marts and sources of supply advanced *pari passu* with her industrial activity at home, and at times outstripped it, and, as the markets of supply and demand were not always identical, the introduction of a medium of exchange became imperative. Where the native markets both imported and exported, trade was conducted by means of credit instruments—bills of exchange and drafts—issued by merchants at home and negotiated by their correspondents at foreign centres. To meet the needs of exporters who had little or no market for the products of our home industries, the practice arose of shipping British gold coins, the acceptors being given to understand that they would always command their face value in British goods, by whomsoever they were presented to British merchants. These, after passing from hand to hand in payment for native goods, sooner or later were returned in exchange for British goods, and thus British gold became conventionally recognised in many markets as currency. The export of gold as coin instead of bullion tended to tie customers to Great Britain as a source of supply, a result largely enhanced by the commercial lead which she had acquired over foreign com-

petitors by the variety and superior quality of her goods and her facilities for transport. The growth of machine industries alienated workers from the pursuit of agriculture, and drew them from rural districts where they could combine weaving, boot-making, and the like cottage industries, with the raising of food products, into towns where no such facilities existed. This led to an increased demand for foreign food supplies; and led to the opening up of fresh markets for British and other goods, and thus led to a system of re-exportation. Other industrial nations quickly followed where Britain had led the way, and a means was sought to establish a fixed basis on which an international exchange could be effected.

Until the year 1848 the tendency of gold had been to appreciate in value owing to its scarcity, but the rapid increase in supply, consequent on discoveries in Australia and the United States, tended to depreciate its purchasing power, and it has continued to vary in response to the petering out of old sources of supply or the discovery of new.

The first step in the direction of International uniformity was made by many nations adopting a gold standard, either in its entirety—both for domestic and foreign exchange—or for international commitments only. The latter was the case in most instances. America retained her paper dollar; France, Belgium and Switzerland their nickel franc; Italy her nickel lira; Spain her paper peseta for domestic currency, whilst basing their exchange on the gold content of a coin that was never minted in gold, save in denominations of five, ten or twenty. It is important to note this twofold arrangement, as it offers a solution to the difficulties of those countries who still retain a silver standard for domestic and foreign exchange alike. In these cases, the arrangement now existing is to assess the exchange value on the basis of the day's price for silver expressed in terms of the sovereign.

It is evident that gold, being coined in different countries in differing denominations, and from metal varying in fineness, it would only be possible to arrive at an equitable fixed parity by adopting some one unit as the unit of reference for all other currencies. The sovereign being already generally recognised as a Standard of Exchange, was the unit adopted, and the

exchange value of all units was fixed by comparing the number of national units in any given country, which, when newly coined, or merely by reference to the Statute, contained the same weight of pure gold as was contained in the sovereign. Thus, due allowance being made for monetary values and fineness of metal, it was found that the French, Belgian and Swiss franc, the Italian lira, the Spanish peseta, the Rumanian leu, and the Greek drachma all required 25.225 coins to be paid as the equivalent of one sovereign, the American and Canadian dollar 4.866, the Dutch florin 12.107, and the German mark 22.43. The value of gold was in all cases determined by the British statutory price of 84s. 11½d. per ounce fine.

On the face of it, this arrangement appeared in every way sound and conducive to free exchange on equitable terms. Its good effects were fostered by the fact that Great Britain was especially adapted to secure the free circulation of gold, because her requirements from abroad were so varied as to bring her into commercial touch with every part of the world, and in value balanced or exceeded her exportable surplus.

This fair appearance notwithstanding, there were two inherent sources of evil which it needed only time and circumstance to bring to light. The first lay in making a National unit of value, the unit of reference for all others, since the relative stability of our exchange parity—on which international parity depended—was thereby affected by every disturbance, political, social or industrial, in every part of the world. The second lay in making the freedom of circulation dependent on the supply of the gold-medium deposited in National coffers, and not on the wealth, productive capacity and general well-being of the community.

Long before the outbreak of war in 1914, the first of these evils had disclosed itself in the readiness with which the Exchange responded to adverse news from any quarter of the globe. Before even the extent of a mishap could be locally realised—much less its adverse effects be ascertained, the exchange with that country fell, the fall being due to financial caution and still more to speculative influences. At such times gold limits were ignored, and the movement, as we have seen in the cases quoted above, was mainly influenced by the prospect of direct profit,

or the desire to secure control of commodity and stock markets to ensure the same end by indirect means.

From the foregoing it is obvious that such an instrument is far too minatory to commercial stability to be longer tolerated. All arguments for its retention based on its favouring the supremacy of British interests are fallacious and grossly misleading. Great Britain's supremacy was due to the rapid interchange of commercial products in her markets—which kept the credit medium in constant circulation for the settlement of adverse balances—and to the facilities of transport which she possessed. So soon as the necessities of war deprived her of that commercial supremacy, she ceased to be the financial centre, and will so continue unless she regains her foreign trade—let financiers and economists say what they will.

How seldom the settlement of commercial balances calls for a transfer of gold is proved by the returns of the Bankers' Clearing House. One need have little hesitation in saying that for every transfer occasioned by commerce, twenty are occasioned by finance, either for investment, speculation, and even baser uses—to influence the exchanges and to raise the cost of necessities.

This places it beyond dispute that if the movable capital representing the savings of past production, and now employed as *quasi*-currency for purposes of purely individual gain, were brought under control, there would be no lack of funds for purposes of national development, and no interference would even be possible in the free interchange of commerce the world over.

The proportion of gold now (October, 1925) held by the Bank of England solely as a guarantee for circulating Bank and private Credit, for which no Government is directly responsible, is £170,000,000, which represents, say, .4% of the annual turnover at the Bankers' Clearing House, or, assuming the total clearing to be equally divided between foreign and domestic business, .8%—four-fifths of 1% of the Bank Credit circulating abroad.

The world's stocks of gold are held to be about 1,200,000,000 ounces, of which some 480,000,000 ounces are used for currency purposes, and this weight coined into British sovereigns would yield, say, £2,040,000,000 sterling. Of this currency gold the United States held on January 1st, 1922, stocks valued at

\$3,657,000,000, or at parity £752,500,000 sterling, equivalent to 177,000,000 ounces, or nearly 40% of the world's stock. In 1921, America's excess exports of merchandise were approximately \$390,000,000, and her excess imports of bullion \$141,468,000, showing that in one year she added to her gold stocks some 6,860,000 ounces, and to her National Credit balance some \$390,000,000 entirely at the expense of Great Britain, since the latter's exports to the United States exceeded her imports therefrom by some \$1,000,000,000. This adverse balance included no portion of Britain's war debt, the first instalment of which did not fall due till 1923. These figures fully bear out the statement on page 5 that, unless a nation's imports exceed her exports, she cannot ensure the circulation of currency gold. It must increase and grow a heavier burden on the State—a veritable old man of the sea.

Of the large gold stocks held by the United States on January 1st, 1922, it was estimated that 18% only was in general circulation—part being hoarded privately—while the balance was held as National Assets or by the Federal Reserve Board as a currency guarantee. The following paragraph (extracted from *Whitaker's Almanack* for 1923, page 742) described the situation : “ The amount of gold actually in daily use is small, which represents economy in the use of a metal which wastes by constant handling. The gold stocks of the U.S.A. are really held in central reservoirs, and the internal movement takes place through a gold settlement fund. Inter-district balances are settled in this way, and the gold itself does not move, but the title to it is transferred by this gold settlement fund.”

The Union of States in America may furnish a precedent to a Union of all Nations for currency purposes, and the system of currency which suffices for the former may suffice for the latter. As, however, racial interests and prejudices fostered by frequent hostilities are more pronounced, greater precautions should be taken that the credit be securely guaranteed.

Thus, we find 82% of the gold stores in the United States—equal to some 33% of the world's currency gold—representing the profits of productive effort, lying dormant, while other nations are unable to develop their resources and productive energies from lack of the exchange medium of which she holds

a plethora. The possession of such vast stores of the world's currency medium, which she can only utilise for purposes of usury, gives to America the power to dominate the world's finance as well as the world's trade. The former by over-riding the design and action of any foreign combine of financiers, and the latter by imposing such conditions for the acceptance of gold in exchange for vital necessities of which she has a superabundance, as to enhance greatly the cost to purchasers and the expenditure of the ultimate consumer. On the other hand, finished products in excess of national requirements can be dumped in foreign markets at a price below cost. Is it not unreasonable that a means, designed to assist commerce, should be made the instrument of crippling and arresting commercial development in the interests of finance? True, the monopoly can only endure for a time, and will ultimately serve as a wholesome stimulus to human endeavour by quickening home production, but—why tolerate this embargo on the productive efforts of the many, that the few may benefit without effort? Time must supply the stimulus, as population and science develop, since the development of the whole world is only a question of time and circumstance—compare the Africa of to-day with that of Livingstone and Stanley. But—why put hindrances and barriers to that development by checking the free exchange of products on which it depends?

Why can an exchange of products between marts as distant as London and Aberdeen be freely effected without the interference of others than the parties concerned? Because the principals possess in their National Currency a common credit-medium, and the passing of the medium—or a cheque representing it—transfers an amount of monetary credit equal to the exchange value of the goods. Why, then, cannot an exchange of goods between London and Paris or Antwerp—either city only half the distance from London—be effected in the same simple and equitable manner? Must it not be, because there exists no international currency, commanding a constant value in every mart, and circulating by a similar medium without possible risk of interference and complication by third parties? Cannot this deficiency be supplied? It can, and with ease, if only the will be there.

The three essentials precedent to its introduction can readily be furnished by adaptation of existing agencies and means. No violent changes are necessary. The domestic currency of every Nation can remain unchanged, gold can still continue the visible medium of International Credit, but it will be recognised solely as a medium of guarantee, and not regarded as money with an arbitrary value of its own. The exchange of commodities will be free and unfettered by the demands and manipulation of finance, and variation in exchange values will be unknown, or, at worst, be few and far between, and will equally affect every nation. If the variation be confined to the unit which is to serve as the common measure for all national units, any such variation can only result in an uniform rise or fall of the parities of all National units. Thereafter it may remain constant. If, for international purposes, it be regarded solely as the medium of a credit based on the weight of gold representing an ascertained commodity value averaged over a lengthy term, the market in gold may be absolutely free. The rise or fall in the market value of the metal cannot affect the weight—and it is on this the unit should be based so that variation in price will only affect the material of the medium, not the credit.

The nucleus of a Constitutional Authority already exists in the League of Nations, the data requisite for fixing a just and equitable unit of ascertained value also exist, and the gold now held in National Banks as a reserve would simply be transferred to the Constitutional Authority as Trustees. That the depository Banks would be less faithful to an International Trust than to a private customer is inconceivable.

The wide range of variation in exchange values possible under the existing system is fresh within the memory of us all. The rapidity of those changes begat wonder in the minds of many as to the means and the men by whom these lightning variations were engineered. The following extracts from a recent work on Hungary may throw some light on the mystery.*

Commenting on the wide disparity between the poor and wealthy in Budapest the author adds :—

“The Hungarians have no doubt who their spoilers are.

* *A Wanderer in Hungary*, by George R. Birmingham. (Methuen & Co., 1925). pp. 69 and 104.

Their hatred of the Jews is bitter, intense, amazing. The stranger listening to what they say smiles, for to us the *Juden-hass* seems absurd. We gasp, for its violence takes our breath away, but finally we half believe.

"The Jews hold the secret of making money out of falling currencies, of wringing fortunes for themselves out of every delirium of speculation which marks the steps of commercial disaster. I have been told by a man who knows Europe well that exactly the same faces—not only men with similar faces, but the very identical men—were to be seen in the Adlon Hotel in Berlin, in the Bristol Hotel in Vienna, and in the Palota Hotel in Budapest during the rapid fall of mark and crown. Always they were faring sumptuously. Always by some means they were amassing huge sums of money."

And again :—

"Here feasting, drinking, dancing, but never laughing, are the world's new brigands, the manipulators of international finance. Where a carcase is there are gathered the vultures that prey on it, and nowhere more thickly than in Hungary since the war. Attendant on them are strong-faced women with rapacious eyes, whose bodies these men have bought with the very gold for which they have sold their own souls."

Such is the class of men to whom Governments supinely surrender the control of National credits and international exchange on which the employment and life of their people depend. Obligations as trustees are disregarded and contemned, if only party power and political control may be enhanced. And—as of old—the people love to have it so, regardless of the end. Never yet has reform proved impracticable where the will to do was present. At present the disease is rampant, the physicians called in charge West-end fees to East-end patients, and—provide no remedy.

CHAPTER V

A GOLD STANDARD *versus* A PAPER CURRENCY

"Money, when it does what it is intended to do, is all help and no hindrance."

"Gold itself is not a valuable commodity. It is no more wealth than hat checks are hats. But it can be so manipulated, as the sign of wealth, as to give its owners or controllers the whip hand over the credit which producers of real wealth require. Dealing in money, the commodity of exchange, is a very lucrative business. When money itself becomes an article of commerce to be bought and sold before real wealth can be moved or exchanged, the users and speculators are thereby permitted to lay a tax on production."—HENRY FORD, *My Life and Work*.

OF late years no expression has been more generally in use among financiers and City Editors than 'the Gold Standard.' Its restoration in England has been persistently and strenuously urged, and the partial achievement of the same loudly acclaimed.

One finds the term in every article dealing with finance and currency, and its partial restoration—shortly to be completed by the transfer of the Currency Notes to the Bank of England, that they may figure under the false protection of the Gold Reserves held by that Institution—is proclaimed as the panacea for all the ills from which finance, production and exchange are suffering.

What is the Gold Standard? The term implies that the currency of a country is legally based on an unit weight of gold, so that all monetary instruments issued in terms of that unit are legally bound, on demand, to be redeemed in gold at a statutory weight. To prevent this monetary unit from varying in value with the market price of the metal—for the exchange value of gold like that of all other commodities is largely governed by the economic laws of supply and demand—an artificial value has been assigned to it, thereby restricting the price of the metal

and rendering the market no longer free. In other words, while the price of the metal is stabilised, money—the exchange medium—is rendered variable, so defeating the object aimed at. This restriction in price is effected by the Bank Charter Act of 1844, compelling the Bank of England to accept gold for coining, in any quantity, at a fixed price of 84s. 11½d. per ounce fine. By the provisions of this Act a citizen with gold for sale, being able to obtain 84s. 11½d. per ounce from the Bank of England, was not likely to sell for any less sum; while, if he needed gold, he had only to present his cheque for the value at the Bank counter, and in reply to the well-known enquiry of the Cashier—“How will you have it?” answer, “In gold, or Bank of England Notes.”

The use of monetary instruments not being restricted, as Currency is, to National bounds, we are faced with this anomaly. While the currency of one country may not circulate as legal tender in another, a monetary instrument, drawn in terms of that currency and redeemable in the same, can generally be negotiated in a foreign centre within a narrow margin of its face value. For the foreign bill or draft held in a centre, where there is a general demand for credits on other centres to liquidate obligations there incurred, had only to be returned to the country of origin to become subject again to the rules and regulations governing its issue, and payment could be demanded in gold, provided a gold standard was there in force.

These bills and drafts, as has been elsewhere demonstrated, were in no sense currency, having been issued privately on individual responsibility; yet they were bound to be recognised by the State as quasi-currency, being monetary instruments valid within the realm, and designed to obviate the necessity for gold shipments, by enabling them to be used for the settlement of claims due to nationals on their return. Hence to avoid the frequent loss and expense incurred in the shipment of gold, the use of Bills, drafts, cheques, and other monetary instruments in foreign countries became general, and soon supplied the place of an international currency.

The fact that these instruments were drawn for specific amounts to meet individual liabilities would naturally present a difficulty to their realisation on the market. This difficulty

was overcome by Bankers purchasing bills on the leading centres, and opening therewith a credit account at the centre on which each was drawn, and themselves issuing drafts to their customers against such credit.

The limits which constituted the narrow margin of variation in these instruments were known as the 'Gold points,' a term which has been several times used in these pages. These gold points were determined by the cost of transmitting gold from the country whence the draft issued to the country where it was due for payment.

Thus, if a draft on a London Bank were sent in liquidation of a debt to New York, the creditor, if he failed to negotiate its sale at a discount less than the cost of transmitting gold, could remit the Bill to agents in London with instructions to demand gold, and remit the same to New York at his charges. On the other hand, if a merchant in New York, having occasion to liquidate an account in London, failed to obtain a credit on London at a premium not exceeding the cost of gold transfer, he could remit gold at his own charges in lieu of a credit note. Thus the gold points practically restricted the range of variation to twice the cost of transferring gold from one country to the other. The main factor, therefore, in deciding gold movements, was the ease with which drafts on a given centre could be bought and sold when required—or, in other words, the ratio of supply to demand.

Had a Gold Standard been universal this system, though inherently unsound, might have avoided—and under favourable conditions did avoid—disaster for a considerable period. But a Gold Standard was not universal nor even general; for (1) many countries preferred to retain a silver Standard which needed a continual readjustment of its value at the day's price of silver to the conventional value of gold; and (2) many countries, nominally possessing a Gold Standard, used silver or paper for their domestic currency. As all monetary instruments are expressed in terms of their native currency, it is evident that the value of the instrument would depend on the ease with which the credit specified in the instrument could be exchanged at the moment for gold. This in turn depended on the ratio of the credit paper circulating to the gold held or controlled by the Bank of Issue.

As has been shown elsewhere, the constitution of this credit paper—circulating by custom as the equivalent of gold—was inherently unsound, in that it possessed none of the essentials of a sound money. It was not issued by constitutional authority, was not constant in value while circulating, and the variations in value were not controlled by the authority of issue, but by influences and considerations not only independent of commerce, but inimical to it, seeing that they involved the exchange of commodities in the weakness induced by a fluctuating exchange.

In his speech at the Annual Meeting of the Midland Bank, on January 26th, 1926, the Rt. Hon. Reginald McKenna is reported as saying :—" Our return to the Gold Standard is the outstanding event of the year. Its profound importance to our currency and credit system is acknowledged, yet the final step was taken without noticeable disturbance, and our ability to recover and hold a free gold market has been firmly established. On what we may term its Exchange aspect the operation was entirely successful, and our financial authorities may be congratulated on their achievement, in which the sympathetic attitude of the American Banks was a material factor." This, of course, is the view of a financier, and frankly admits that the movement was engineered by financiers in their own interests, and will only so far and so long benefit exchange as those interests will permit.

In commenting upon this speech, the City Editor of *The Times*, in its issue of January 27th, 1926, wrote as follows :—" The transition to gold seriously interfered with our export trade for a time, since it brought about a rise in the gold or external value of the pound, and this made British goods dearer to foreigners. This affected overseas trade in two ways; on the one hand the higher cost of British goods discouraged exports, while on the other, imports were stimulated by the higher prices received by the seller of goods. This position could be rectified only by reducing British prices. These adjustments have now been made. Adjustments of this kind are a regular feature of a fluctuating currency. . . . Wherever the currency rose in value the adjustment of prices had to be downwards, and every holder of commodities stood to lose. The object of the

return to gold was to eliminate the fluctuating currency which reduced international trade largely to a gamble in monetary changes, and which was slowly undermining the confidence of the people who realised that money should be kept as constant in value as possible."

One cannot fail to be impressed by the cool assumption that the adverse results of financial manipulation on commerce, here frankly admitted, are to be taken as a matter of course by the rest of humanity, without voice raised or effort made to remedy the defect and remove the abuse. Finance requires it, humanity must submit. Commerce, employment, life itself must hold their peace and stay their hands in the presence of the Golden Image, which Mammon, the king, has set up. The medium, designed as an aid to commerce, is to be made at will a barrier to exchange.

The 'return to gold' by a single nation will not, because it cannot, 'eliminate the fluctuating currency which reduces international trade to a gamble in monetary changes.' Despite the influence of this 'gamble in changes,' currency, in the form of a pure circulating credit, has throughout been stable and constant in value within its proper sphere, thereby demonstrating that nothing less than an International credit, measured by an independent unit, can furnish a constant and equitable medium for all. The remedy must be as universal as the malady before it can be truly effective.

It is encouraging for an author who seeks solely for truth to find his deductions from facts borne out by so high a financial authority, but the editor might equally well have viewed the result of a variable exchange from the standpoint of production. We have re-established the Exchange value of the sovereign, but what of those currencies whose exchange values are determined by reference to the sovereign, and are still further depreciated by its re-stability. Have we not increased our difficulty in trading on equitable terms with these, and compelled them to seek markets where the Exchange is less adverse to them or even in their favour. It must never be forgotten that when a nation buys it must also sell, since all commercial indebtedness must ultimately be redeemed directly or indirectly by commodities. The evil consists not in the fact that the effects of

variation can be remedied only in part by adjustment, but in the facts that *variation is possible where stability is essential*, and that such variation is not only tolerated, but its existence even advocated by those most vitally concerned in its abolition—producers, traders, distributors and consumers. Why the re-adoption of this faulty system is so persistently advocated and pressed is a perpetual puzzle, seeing that by confining currency to its special function as designed, commerce can be relieved of all monetary disabilities. The question—‘*Cui bono?*’ can have but one answer. There are two parties and two only who are concerned in the use of credit by whatever medium it functions—commerce and finance. Experience has shown that their joint usage of it is impossible without detriment to the one or the other, and even financiers have to admit that the disadvantage is on the side of commerce. That London should be the leading money market of the world is undoubtedly an advantage to finance in the employment of accumulated savings, and in a minor degree may benefit production. But this benefit is not inseparable from finance, and could as readily be secured with an independent commercial medium. The severance would annul the disadvantages which result to commerce from the use of the same medium for different purposes with widely differing ends, but could not affect, save for the better, the economic truth that commercial balances must always be cleared by the transfer of commodities.

The abolition of the faults of the system does not obviate and, in the absence of international assets, cannot obviate the need for an effective medium, but it calls for an authority vested with international powers for the control of that medium. An effective medium being necessary, there can be no good reason for changing one already sanctioned by custom and use, but the stores of gold which now constitute the guarantee for national credit-media circulating internationally must be centralised, and their value measured by an International unit independent of all National units in structure and application. The function of this unit will be of like character with that of *all* currency units—to measure and express commodity values in terms of money, just as the function of currency is to represent those values until redeemed.

The unit must be independent, for the adoption of any one National unit for international purposes must of necessity involve all Nations in the domestic complexities and disturbances of any other. The international unit must stand free from all such complications, and function in a manner to render it immune from their effects. This requires that the Authority of Issue should be jointly approved and constitutionally established by a Body embracing all intending participants, so that the conditions and terms of issue once agreed upon shall be variable only by themselves. Thus established and approved the International Currency Board can have but one end and aim—the faithful discharge of their trust in providing an efficient and equitable medium of exchange.

No medium can be equitable unless it be constant in value; instability must involve injustice to one party or the other. To retain, therefore, in variable form a medium which, if functioning by similar methods under slightly different conditions, might be rendered stable, becomes criminal. It is the willing acquiescence in methods which are admittedly unfair. Since, then, every holder of the franchise is morally and actually responsible for the conduct of public affairs, he or she must either share in the onus of responsibility, or use their best endeavours to secure reform. The interests involved are so vital that they cannot be ignored. They include the first prerogative of human life—that a man should live by the labour of his hands, and that the medium by which his labour is rendered exchangeable for the necessities and comforts of life shall be equitable and constant.

What change then, in the conditions of functioning will be involved by stabilising the International Exchange?

At present it functions as a private issue of credit, guaranteed by a Reserve of Gold held in varying quantity by individual nations. It is proposed that the circulating Credit should be issued publicly by authority, and that the gold reserves should be pooled, *pro rata* to the grant of credit, under an International trust, and stored in central repositories chosen by the Trustees in the interests of equity and security.

The circulating medium—drafts—will remain the same; but the issue will be authorised by Constitutional authority, within clearly defined limits and upon payment in National

currency against an uniform percentage guarantee in gold, provided by every Nation participating. The only novelty will be the unit of value, which will no longer represent an artificial value arbitrarily imposed by statute on the material of the circulating medium, but the normal value of a staple commodity averaged over a long term of years, expressed in terms of gold *measured by weight*, as of old. Whether this unit be rendered constant in perpetuity by convention, or subject to revision at long intervals, will make little or no difference; so long as it continues the international unit exchanges must be constant, and if and whenever variation is deemed necessary the change must affect every country in equal measure. Any change can be readily adjusted, either by restriction or extension of the credit to maintain the existing ratio of the guarantee, or, more simply, by varying the ratio of gold to credit, leaving the latter constant, and exchange and credit alike undisturbed. While, then, the functioning of the Credit will be the same in principle, its method of operation will be so modified as to conform to every requirement of a sound money, and thus it will provide a stable medium of exchange for all time.

Gold, though wholly unnecessary for a National Currency, will still be the efficient guarantee of Credit circulating internationally, but its monetary value will no longer be measured arbitrarily, but will express the results of actual trading in a selected commodity over a long term of years.

The actual medium of circulation will still be paper, which properly protected, has been shown by experience to be as efficient a medium of exchange as gold, but the paper will no longer be regarded as deriving its value from the gold, but from commodities, the possession of which should control its transfer.

In the rendering of service a short term of credit may be unavoidable, but it should be restricted to the narrowest possible limits.

It should be clear from all that has been stated that paper with a gold backing or guarantee would still be the international medium, but it would be paper issued by Constitutional Authority, on a credit of known amount, and the conventional guarantee for that credit would be constant in weight, and would remain permanently on deposit with the Trustees. Any

adjustment required would be effected by a transfer of debit and credit balances in the Books of the Currency Board, as is now done with balances at the Bank of England, earmarked for adjustments by the Bankers' Clearing House. Similar though smaller balances will still be required for the adjustment of bills, drafts, etc., issued by individuals, firms or Banks for purposes of finance, and, as now, will be backed by a Gold guarantee, but this should be furnished and controlled by the Banks themselves co-operating in the general interest of finance.

A National Treasury should not be called upon to provide at public cost the means of transporting to alien shores National Capital on which the State has a prior claim; but it should—with a view to protect and preserve that Capital—be ever ready to negotiate a financial loan to another Nation on equitable terms, under the auspices of an International Currency Board. In the former case, the Capital is often lost to the owners, or, if employed with success, the benefits resulting are enjoyed by few; in the latter, the pledging of a sound security can be demanded, and the loan will be administered by the State to the benefit of the Nation at large.

It would be the duty of the Board to demand such security from the borrowing State as will warrant the most favourable terms, the same to be guaranteed by a specific duty on imports, and default rendered punishable by suspension of the International Credit of the defaulter. The fact that they are directly concerned in the repayment of the loan should render Nationals more keenly vigilant in the expenditure of the proceeds, while the ill-effects of prodigality would be confined to the borrower and restrict the fear of loss to the lenders.

This, however, is merely a suggestion which might possibly tend to purify State finance, and to restrict the opportunities for foisting bogus undertakings upon the investing public. On the one hand, it would give Government the power effectually to protect the National property against its indifferent or callous use by the life-tenants, and on the other to control the right use of the borrowed capital by involving all Nationals in the responsibility for its repayment. Such control should and, doubtless, would do something to curb the irresponsible and gambling spirit which now pervades every department of National life and State

expenditure, and to foster a more careful and direct control by the public over the administration.

It may be urged by some that however carefully a credit circulating by a paper medium may be fenced around internationally, a credit of the same character circulating nationally must always be liable to grave abuses at the hands of a weak or immoral government to provide the means for financing its own extravagance.

They maintain that, as gold is only obtainable with difficulty and in limited amount, it is not so easy for the government of a country—where a gold standard is in force—to embark on lavish or unauthorised expenditure; that it has again and again been demonstrated that where there is a paper currency, governments yield to the temptation to relieve their present necessities by paper inflation.

This, however, is a very superficial view of the matter and springs from the heresy which regards monetary value as deriving from gold, and disregards both its statutory origin and its intimate connection with the National Credit. Bearing these in mind, unauthorised inflation—an increase of currency without the sanction of Parliament—is a violation of constitutional privilege and public right, and, therefore, treasonable in character and subversive in operation.

The causes of inflation are twofold, the one International and the other National, but so closely are they connected in their working that it is hard to say, at times, which is cause and which is effect. For instance, the sale of National Currency abroad at a discount—to wit, the sale of German marks at billions of marks to the sovereign—must induce and continue to augment inflation; while an increase in currency, intended not so much to finance National extravagance as to aid the discharge of National indebtedness and to substitute an unproductive pledging of the National Credit for one productive to the holder, may be, if sanctioned by Parliamentary authority, a measure of financial prudence resulting in ultimate benefit to the Nation at large, though derogatory to the National honour.

There is, however, a wide difference between the two issues.

In the one case the liability of the State is to the Bank of Issue and not to the foreign purchaser of the currency. In the other

case, the arrangement is solely between the Government and State creditors, and if the latter approve it, Parliamentary sanction makes it legal. State dealings must be restricted to national bounds. The claim of foreign creditors for value received is against the Bank of Issue as vendors and not against the Government. The latter are only concerned to supply the Bank's demand. Foreign purchasers, knowing that they are dealing in a commodity—the legal value of which is strictly local—speculate with their eyes open, and the matter of redemption can concern none but the two parties to the transaction. At home the purchasers are in the position of buyers of smuggled goods in a State where the Government holds the monopoly. Inflation induced by national need for special purposes, is always capable of deflation without injustice to any national, so soon as its influence on domestic purchasing power becomes felt. Given that the inflation of the currency has decreased the purchasing power of the National unit to one-third, a gradual deflation will uniformly appreciate the purchasing power of the currency outstanding, so that the monetary loss will be compensated by an increase in commodity value, and commodity value will from the point of view of exchange be restored. A decrease in quantity of the medium will be balanced by an increased purchasing power for each statutory unit and finally—‘nobody will be one penny the worse.’ Any injustice or disturbance which may arise will be in the sphere of foreign exchange—from the use of a National medium outside National bounds and National control.

Inflation, therefore, unless approved by Parliamentary representatives for purely National purposes, arises either from a disregard of International Law which makes a National currency illegal tender beyond national bounds, or from Parliamentary negligence and the toleration of such negligence by those whom they represent. The possibility of foreign dealings in any National currency or its control by foreigners will be rendered impossible by the adoption of the proposals shortly to be put forward. With an international medium of exchange, the need and the occasion for a National currency to circulate abroad will alike be obviated.

Nationally no issue of currency should be sanctioned beyond the needs of the community, and so long as currency functions

normally, the extent of that need will be quickly demonstrated to Bankers, and any excess reduced.

In the *Times* of February 8th, 1926, there appears a Note by the City Editor on Pre- and Post-War currencies, in which it is stated that the amount of Notes and Gold in 1913 was about £4 per head, the equivalent to-day with prices advanced some 50% to £6 per head of population. "The actual amount in circulation is over £9 per head. The inference to be drawn from this is that many people habitually carry more currency than they need. The velocity of currency has been reduced."

This subject has been already dealt with elsewhere in these pages. In naming the causes of this increase the Editor makes no mention of the most fruitful cause of this increased circulation—the enormous increase in betting in every grade of society and in every department of life.

Could a census be taken of the amount of currency passing daily in payment of bets on every variety of sport, and every event of doubtful issue, the amount would bear a high ratio to that passing for legitimate purposes of daily exchange, and would largely, if not wholly, account for the increase. The proposals here put forward for an International Credit will prevent any abuse of this kind in that department, but a form of National Currency immune from this evil is yet to be found, unless the circulating medium can be restricted without restricting commercial credit. The larger spending power, fostered by the call for labour at a high wage during the War, has engendered a larger clientele for distributors and higher prices, both demanding an increased circulation. Gold is no longer currency nationally, and the stocks of the Bank of England are held solely in the interests of finance and not of commerce. To include such holdings as National currency is fallacious, while the Bank Notes held in unvarying quantity on Currency Note Account were more in the nature of a guarantee than an addition to the circulation.

The Currency Note Return for 7th February, 1926, showed an outstanding issue of notes of £286,000,000, and a fiduciary issue of £239,782,765 against a legal maximum of £247,902,549. Putting the population of Great Britain and Northern Ireland at 44 millions, the actual currency circulation, apart from the

Banks' holding of gold, would appear to be between £6 and £7 per head of population, an increase fully accounted for by the rise in prices and the enormous increase in betting and gambling.

Abnormal expenditure, such as that entailed by war, calls for an immediate increase in the circulation, which Government is bound to supply. It does not, however, involve further charge on the Exchequer.

Issued by the Treasury to the spending departments concerned through the Banks, against a guarantee jointly subscribed by the Banks, it has an actual equivalent in the work done and commodities provided, and when the occasion for these ceases the circulation contracts and the unusable surplus is gradually returned to the Treasury and the Bank guarantee cancelled *pari passu*. As this is done, the legal maximum of the currency is reduced, and with it the inflation.

If, however, the currency is increased against a special subscription by the Banks in Government securities, on these being released against the surrender of currency the obligations of the State are proportionately increased.

As has been said, it is always open to the Treasury to cover departmental outlay sanctioned by Parliament by the issue of Exchequer Bonds. An attempt to cover any such outlay not sanctioned by Parliament by an unauthorised issue of currency would be a violation of Constitutional right and practice, and the Authorities making the attempt would be guilty of malfeasance in which any Parliament concurring would share.

With due observance of Constitutional Law inflation should be impossible; for every issue of Currency is a direct or indirect pledging of the National Credit—the prerogative of the elected Chamber. The monetisation of gold by an arbitrary valuation of the metal, by obscuring the true origin and function of money, has concealed this breach of law. The proposals now in process of being made effective—to unite Treasury and Bank of England notes under one security—will change the former from a pure credit circulation based on National assets to a demi-semi-gold currency, a course which the authorities of the Bankers' Clearing House have demonstrated to be wholly unnecessary. The result will be that the extent of the currency and of commercial credit will no longer depend on the domestic requirements of nationals,

but on the stocks of gold held by the Bank of Issue—the fiduciary issue being legally circumscribed. As these stocks can be wafted hither and thither at the will of financial speculators, every phase of production, exchange and social existence will be more completely dominated by the power of money. Bitterly will the producers and traders of this Country rue the transfer by the Treasury to the Bank of England of the National Currency in violation of their trust.

Normally, national currencies are restricted in amount but unlimited in assets, no matter by what medium they circulate; Bank credit is unrestricted in amount, but internationally its assets are limited to the scanty protection offered by the gold stocks of the National Bank of Issue, which, in England, cover less than .4 per cent. of its circulation. The assets of a National currency cannot be valued in terms of gold, for they include both nature's gifts and the productive energy and capacity of its nationals—past, present and to come. The security of the National credit is incomparably greater and more sure than any guarantee in gold. It is doubtful whether all the gold in the world, taken at its artificial monetary value, could represent a fourth part of British credit; while, apart from the arts, gold ranks very low among metals in the scale of utility.

The transfer of Treasury Notes to the Issue Department of the Bank of England is an indirect attempt to secure the complete restoration of the Gold Standard. It involves the placing of Treasury Notes on a gold basis instead of continuing their circulation as National credit instruments. The inevitable result must be that the domestic circulation will no longer be controlled by the requirements of the people but by the stores of gold held by the Bank of England, the power of the Bank to issue fiduciary Notes being strictly limited.* As these stores of gold can be expanded or restricted to suit the requirements of finance, the grant of credit for commercial purposes will be more than ever alienated from public to private control. Hence trade, employment and every phase of native industry, as well as foreign exchange, will be controlled by those who hold no mandate and are responsible to themselves alone.

* See page 73.

The "City Notes," in the *Times* of November 23rd, 1925, in drawing attention to the proposed transfer at a fitting opportunity, compares the ratio of gold to legal-tender money on June 30th, 1914, with that at the date named. The figures given go to show that, exclusive of subsidiary coinage, the currency then circulating in Treasury Notes and Bank of England notes on a gold basis of 37% was double that of 1914, which had a gold basis exceeding 90 per cent.

The article proceeds—" *In view of the rise in prices since 1914—the depreciation in the value of gold amounts to over 30 per cent.—the assumption that the present amount of gold is adequate is more difficult to accept than the assumption that the present total of legal tender is more than sufficient to meet the needs of the Nation after allowing for the rise in prices.* What might be regarded as the excessive increase is probably accounted for by the greater convenience with which paper money can be carried on the person as compared with gold."

There are other contributory causes—such as the higher stamp duty on cheques, the influence of the dole, the increased spending power of women and, above all, the enormous increase in gambling in every class of social life. The demands for gambling purposes must account to a very large extent for the currency increase. This, however, is a side issue. The points to which exception must be taken are here printed in italics.

By the Act of 1844 the purchase price of gold was fixed at 84s. 11½d. per ounce fine, and the *Times* of November 28th, 1905, appends to its article on "The Money Market"—"In the open market the price of bar gold is unaltered at 84s. 11½d. per ounce." If, therefore, gold has depreciated 30 per cent. in value, either the Statute price must have been altered, or the Editor has made the gross error of confounding purchasing power with monetary value. As no alteration has been made either in the Statutory price of gold or in the National unit of value, one is forced to adopt the latter of the two alternatives. Now, so long as the unit of value remains unaltered the measure of commodity value in whatever form it be presented cannot change. The Treasury note of 1925 is as sound legal tender for 20s. value in commodities as was the gold sovereign in 1914. If, then, the purchasing

power has depreciated 30 per cent., and there has been no change in the monetary value of the unit, the only logical conclusion is that the change of value must originate in the commodity.

If called upon to compare the quantity obtained at the respective dates, one readily admits a considerable discrepancy. But the statement of the Editor refers solely to value, and weight and value are different abstractions and are measured by different units. Nothing can more forcibly demonstrate the true nature of money as representative value than the ease with which value is assessed in terms of quantity and quality by the purchaser, and in terms of money cost by the vendor.

To urge a difference in weight in support of a statement relating solely to money value is unscientific and misleading. The only legitimate mode of applying this method of quantitative adjustment to money value would be to ascertain the normal weight of a commodity—the average weight over a long range of years—given in exchange for a fixed money value, and to determine the price of the quantity by the ratio which the day's *weight* bears to the norm.

The comparison would then be fair and logical—weight being compared with weight in relation to a constant monetary value, and would conserve the true function of money in determining value. The result, however, would be largely dependent on the extent to which the changing conditions of production, transport, speculation, spending power, etc., had influenced price.

The attempt to measure value in terms of quantity or *vice versa* is as absurd as would be the endeavour to fix the price of a ton of coal by measuring the contents with a scuttle differing in size on each occasion.

“FIDUCIARY ISSUES.”

A term frequently used in connection with currency is ‘fiduciary,’ the term being generally applied to any form of currency not covered by gold. The use of the word in this connection is so frequent and a right understanding of its meaning is so important that a detailed consideration may be pardoned.

The word itself is derived from the Latin term *fiducia* which in Roman law denoted the transfer of a right or vested interest

to a person, subject to the obligation to re-transfer the same at a future date or on some condition being fulfilled.

The English derivative 'fiduciary' is thus defined in the larger Oxford Dictionary.

I. *Adjective.*^s

1. Of a person :

- (a) In trust of a person or thing ; holding something in trust.
- (b) Of or pertaining to a trustee ; of the nature of a trusteeship.

2. Of a thing :

- (a) In trust of a person ; held or given in trust.
- (b) Of or pertaining to something held in trust.

3. Of a paper currency :

Depending for its value on the confidence of the public or on securities.

4. Of or pertaining to a person that is trusted.

II. *Substantive.*

1. One who holds anything on trust.

2. Something that secures confidence.

Now, there is not one of these meaning, whether that of the original *fiducia* or of the many applied to the derivative 'fiduciary,' which cannot be rightly applied to money in whatever form it circulates and to those who use it.

Take first *fiducia*.

Nationals confide the control of their assets to Government for the time being in trust, to use the credit thus provided in such manner as their elected representatives may authorise, for the due administration of all that concerns the safety and well-being of the community.

The Government hold the same in trust to surrender it to their successors in office, or to retransfer it to the people should Parliament be dissolved.

The issue of currency, subject to the mandates of Parliament, vests in the Government as Trustees of the National Credit, of which it is a portion made visible to assist the exchange of those commodities and services whence its value derives.

Banks buy the currency when issued with all the rights and responsibilities pertaining thereto, and these include the use of it for the purpose for which it is designed and the right to return it to the Treasury agents when the needs of domestic commerce no longer require it.

Their customers receive it from the Banks for use as designed, and in the assurance that Government not only has the constitutional right and power to enforce its acceptance in exchange for goods or services, but will themselves accept it as full discharge of any and all monetary obligations due to the National Exchequer.

The public receive it as a trust for use as designed—a trust more honoured in the breach than the observance, judging by the general prevalence of gambling—and in the assurance that it will always command its face value in every market within the country of issue.

From its first inception to its recall, currency is a *fiducia*.

Now take the derivation 'fiduciary' in the various meanings assigned to it.

First, as a substantive. The Government are fiduciaries in that they hold the right of issue in trust, and are bound to maintain confidence in the medium employed.

Bankers are fiduciaries as intermediaries between the authority of issue and the public.

The public are fiduciaries as trustees of their property—the basis of the National Credit which derives from that property.

The currency is a 'fiduciary' in that it demands and secures the confidence of the public and circulates freely from hand to hand; and further holds in trust a fixed value in commodities which is bound to be surrendered on its presentation.

To the adjectival use the same remark applies. The Authority of issue, the distributors, the users, one and all are fiduciary. The currency is fiduciary in that it holds in trust commodity values and so acts in a fiduciary position to the commodity on which its intrinsic value depends.

To restrict the epithet to paper currency is a fallacy, for, no matter in what form it circulates, currency is dependent for the material on National credit, which is as truly—though most unnecessarily—pledged by the purchase of gold as by its direct

use as the medium. Gold to which an arbitrary value is assigned, is, in a depreciatory sense, the most fiduciary form of currency, for it makes the greatest demand on the public credulity in claiming to possess a value apart from commodities—a claim refuted by experience and the simplest exercise of common sense. The only forms of Currency to which fiduciary in a depreciatory sense should apply are those which are issued on private initiative without Parliamentary sanction.

The financial use of the term 'not represented by gold' is entirely erroneous, since gold itself owes its monetary value to Statute—its value is conventional, while as pure currency it cannot circulate without a moving of the waters of exchange by the transfer of commodities. Its use as a limited guarantee for unlimited private credit circulating abroad is illegitimate, and belongs solely to the province of finance.

Gold is purchased by pledging the National credit, while a currency note pledges that credit directly, and derives its value therefrom. If, therefore, the latter is fiduciary, still more so is the former. If the use of the term implies not represented by visible assets, it is still more inapplicable. For if British Bank Credit can circulate to the extent of £40,000,000,000 per annum—a monthly average of ten times the total of the British currency in circulation—without recourse to National currency, then the present medium of Foreign Exchange may, in all sincerity, be styled not only 'fiduciary' but 'fictitious.'

CHAPTER VI

MISAPPREHENSION AS TO THE NATURE OF CURRENCY

"Money after all is extremely simple. It is part of our transportation system."

"People must be helped to think naturally about money. They must be told what it is and what makes it money, and what are the possible tricks of the present system which put nations and peoples under the control of a few."—HENRY FORD, *My Life and Work*, Chap. 12.

IN reading articles on finance, the gold standard or the exchanges, one frequently meets with allusions to the mysteries of currency.

There are no mysteries in currency, but there are innumerable and well-nigh unfathomable mysteries in the manipulation of currency by finance, to serve its own purposes and achieve its own ends. These constitute the esoteric doctrines of the cult of the Golden Calf, and so mysterious are they to the uninitiated, and so easy of interpretation to the high-priests of the cult, that one wonders that two financiers can pass one another in the street without a finger slyly laid to the side of their noses, after the fashion of the augurs and haruspices of ancient Rome.

Currency rightly regarded and rightly used can hold no secret. It is a device to facilitate exchange. Exchange posits subjects of exchange. These subjects possess an abstract something which economically we style value and commercially credit. If two parties exchange goods for goods—whether it be a knife for a foreign postage stamp, or 5,000 sacks of corn for 2,000 chests of tea—it is barter, and in direct barter the question of value is generally over-ridden by the desire of each to acquire the other's possession. In modern commerce, however, barter—exchange by compensation, as it is now styled—is rarely employed, partly because direct exchange is rare, and partly by reason of the enormous range of subjects dealt with by exchange, and the difficulty of assessing the value of one subject in terms of another,

e.g., an electric dynamo in terms of boots. To simplify the exchange, the value of each is assessed by means of a common unit designed to measure values, and is expressed in terms of that unit to which an artificial monetary value is assigned. The exchange is effected by the transfer of tokens or credit instruments conveying such number of the monetary units as the case requires. In fixing the number of these units for the respective subjects of exchange—in determining the price, many questions will present themselves for consideration. The fitness of each article for the purpose designed, the prime cost of each, the demand for each—the existence of a market, and the cost of transportation to that market, will all help to regulate the respective values. The question of relative value will be determined by the number of monetary units resulting in the one case compared with those resulting in the other. It is clear, therefore, that the money payment in either case represents the exchange value of the commodities, and the money is only a medium representing that value until redeemed in commodities. This happens when the monetary credit is in turn passed in exchange for commodities. Neither party to such a transaction within national bounds hesitates to accept the credit—or value—equivalent at its face value, because he knows that the law compels *any* and *every* vendor to accept it at its statutory value for any article he has to offer. It is quite clear that the value of money derives from the articles given or acquired in exchange, and circulates freely and equitably because the law makes it legal tender for those articles. There is no room for mystery here, and there is none.

A step further. How comes monetary value to be fixed if it derives from commodities the value of which is continually in a state of flux? The answer is—because the dependence of money value on commodities no more implies constancy in the supply or price of commodities than dependence on a well for water implies that the depth of the water in the well shall be constant, or dependence on a cheque for payment implies that the credit account is always at the same level. The value of money must be fixed, otherwise it cannot be an accurate measure of value, or function truly.

The value of commodities varies with times and seasons, and the prime function of a unit of value is to measure such variations

and record the results in terms of itself. The prime function of currency, whether in coin or some form of credit instrument, is to represent the recorded value until redeemed. The unit of value is as truly an instrument of measurement as a yard, and the sub-divisions of shillings and pence in the former correspond to the feet and inches in the latter. A measure must be constant or it fails in its functions; its one essential is that it shall always approximate closely to legal standard.

The units of value of various nations have always varied in character and in comparative value, but within National bounds the cowrie of W. Africa and the iron ring—'cash'—of China were as good media of exchange as the paper dollar of America or the erstwhile gold sovereign of Gt. Britain. The recognition of all was purely a matter of convention, legal or otherwise. Historical records prove that the unit was originally a measure or weight of a commodity necessary to the maintenance of life, or of a metal valued for its utility. As commerce extended—which occurred when products exceeded local requirements—outside markets were sought, and the conveyance of the credit media to these compelled the adoption of a metal more valuable by reason of its scarcity. Gold was finally adopted as the conventional monetary medium to represent commodity values. The value was not inherent in the medium, but in the goods, and no matter what weight of gold a merchant might possess its value was only potential in the absence of commodities. This surely is simple and void of all mystery.

Once more let the appeal be made to fact and common sense :—
'A little farther lend thy guiding hand to these dark steps.'

The basis of all credit—no matter what its form—is commodities, and the basis of all money is the National Credit, the assessable value of all commodities within National bounds. Money is in reality part of the National Credit pledged, in visible form, to facilitate the exchange of commodities and services. Any pledging of a National Credit is attested by some form of acknowledgment, and the issue of the same is evidence that a Government is debtor for value received on loan, and each successive borrowing adds to the burden of National Debt. There is this difference between the issue of a National Loan and that of currency. An issue of currency entails no increase in

the National indebtedness and may even effect a reduction. Where a gold standard obtains, the exchequer bonds or other forms of obligation issued in exchange for the gold, are exchanged by the banks for the minted coin, and the only result is that a certain quantity of National Credit is tied up needlessly in the form of gold. When, as now, National Credit circulates in the form of Credit Notes, there is no issue of Exchequer Bonds on currency account, but the notes are purchased by the surrender of securities representing existing liabilities of the Government. In the one case there is a tying up of National Capital to the extent of the gold held, in the other a temporary reduction in the National debt and consequent saving of annual expenditure to the Nation.

But though Government reduces its expenditure in the latter case, its responsibilities in respect of the currency remain.

These are to supply a sufficiency of currency to meet all domestic requirements, and to maintain the credit medium at a constant value. Thus, the Bank of England, as issuing agents for the Treasury, always holds a reserve of currency to meet seasonal demands, and the law of legal tender holds good for the statutory currency whatever its form.

The exigencies arising from the War compelled the Government to suspend the Gold Standard and to adopt the circulation of pure credit by means of currency notes, just as Bank Credit circulates by means of cheques. A cheque is not currency and the Government is no way concerned in its issue or redemption, unless it be presented for payment in cash. Even then the connection of the Government is most remote, and the responsibility to provide the cash for the individual payment rests with the Bank. Once the cheque is cleared—which need involve no call whatever on the currency—the Bank to whom the credit is conveyed is bound to provide the face value of the credit instrument in currency, if and when called upon. This suspension of the Gold Standard disclosed the fact that a Credit circulating by notes as efficiently discharged the function of a currency as when circulating in gold, and that the holding of gold as a guarantee was wholly unnecessary for domestic purposes. Thus force of circumstances induced the adoption of the best and most scientific form of National Currency that a stable Government

could devise. The functioning of a credit currency depends solely on the ability of a Government to maintain its laws, and a Government unequal to this task would certainly not be competent to protect its Gold Reserve.

The law of legal tender needs no compulsion—it benefits all, it injures none. Its utterance is positive, not negative. Remembering that the function of currency is limited to National bounds, where is the mystery? Yet this is a plain statement of what a National currency really is, and this is the only form of currency at present existing.

Unfortunately, there is a reverse to the medal. Until 1844, gold, though adopted by many nations for coinage purposes, was regarded in the same light as a currency note, as purely representative of commodity value. By custom, British gold, though circulating at home in its true character, was being largely used abroad as affording a more acceptable security than paper among exporters of native produce who were not then importers of British goods. As Britain's supremacy in foreign markets began to be contested by other nations, gold in other coinage, differing both in weight and fineness, began to circulate in distant markets, and much confusion resulted. To remedy this confusion—resulting solely from the use of currency outside its borders—it was decided to give a fixed value to gold, and by the Bank Charter Act of 1844, this was arbitrarily assessed at 84s. 11½d. per ounce fine. It was thus made a financial commodity to be bought and sold in the markets of the world, not as metal, but as money, and so became subject to the economic influences of supply and demand. By this act, the sphere of gold as representative credit was enormously extended and, by the intermediary of Bank Credit, Capital Credit became so readily convertible into currency credit represented by gold, that the whole sphere of production and exchange is dominated by finance, and the medium of exchange made subservient to the requirements of finance, without regard to its original purpose.

It is in the dogmas and methods of finance, not in currency, that all mystery originates, and financial economy might be aptly described by a parody of an old time jest as—'the propagation of mystery by misty-schisms,' for it has utterly forsaken the true tenets of Currency to follow the more alluring ritual of

the Gold Standard. Its devotees start with a perverted view of the essentials and their judgment is warped by the consideration of premises, data and results, which spring from and are concerned with the operations of finance and not from currency. Having due regard to the latter, Banks act as servitors to production; but yielding to the requirements of finance, they are converted into stud-farms for making money breed, and high are the prices realised for the produce.

One marvels at the waste of intellectual effort and scholastic attainment, in the endeavour to ascribe to natural or economic laws the results of human action so involved that it is difficult at times to differentiate between cause and effect. The invention of a stable law to account for the fickle results of ever varying conditions induced by human manipulation is a task beyond human intelligence and ingenuity. To demand from an artificial instrument results utterly foreign to its function and design is folly; to warp and wreck the machine—perfect for its legitimate purpose—in the hope to achieve the impossible, is an act of madness.

A sound currency functioning in its proper sphere perfectly fulfils its design, and will always do so, so long as the Government efficiently administers the laws. With a weak, despotic or dishonest Government the issue of a currency, whether circulating as representative credit or as money with an arbitrary value of its own, gives ample scope for abuse.

The initial aversion of the Soviet Government of Russia to currency is well known and those who are acquainted with Imperial methods of finance, will feel little surprise at its existence. In pre-War days, the general conception of currency entertained by the Russian peasant was that of a machine for rivetting upon him the shackles of debt and binding him to an endless life of toil and misery. His connection with it was of the briefest, his experience of it the worst possible. He received it from the wholesale buyer in payment for his crops, and at once passed the major portion to the tax-gatherer. The balance—if any remained—went to the Jew money-lender or the head-man of the village, to repay loans, borrowed at high interest, for maintenance during the preceding winter, or to purchase seed corn in the spring. The paper roubles paid to him constituted a special

issue of currency, made prior to each harvest and burnt on its return to the Treasury from the tax-gatherers. They were sold at a liberal discount to the Banks for gold, and by them were issued at a smaller discount to the wholesale buyers or their principals, and these passed them at their full face value to the peasant. Thus the Banks paid the legitimate taxes plus bureaucratic additions, but these were refunded by the peasants with all profits of the intermediaries and exactions of the tax-gatherers added. Any surplus was at once claimed by local creditors, and often proved insufficient to cover loans and rapacious interest. Thus the *moujik* began a new year of toil with a heavier burden, and of hope bereft.

No properly constituted Government can be independent of the people. The political creed of Russia is an attempt to force recognition of the State's supremacy, by *force majeure*, and that, if report speaks truly, largely mercenary. This is as truly political slavery as that which obtained under Imperial rule. It tends to deprive the unit of all volition, which is the essence of intelligent growth, and to reduce the conscious life to the level of the lower orders in nature. You cannot make character by machinery. Thus, the abolition of currency, though following logically on the recognition of the State as the universal provider, ignores the fact that in the body physical the governing brain itself is constituted and maintained by the functioning of the organs and units. To disorganise those units is to deprive the body of essential functions and to reduce the vitality and strength resulting from conscious obedience to a condition of debility and helplessness, leaving it dependent on external aid. A body politic thus framed is an abortion. The physical brain does not feed the body, but the reverse. It uses the essential elements, provided by the body to direct and stimulate its functions for the good of all units, to abolish or suppress them.

The opportunities afforded to unscrupulous Governments by the issue of currency for their own purpose and its recall by additional taxation, will be patent to all; and the defaults of many South American Governments towards the end of the nineteenth century were due to such methods of finance. With a currency based on just laws efficiently administered by a wise and stable Government, these methods are impossible, and

the existence of such a Government depends on the electorate.

The general integrity of Bankers as a class is an additional safeguard, though not always are they blameless. *The Times* of October 14th, 1925, records—under the heading “Prussian Bank Scandals”—the termination of a protracted official enquiry into the relations of the Prussian State Bank with the Barmat and Kutisker financial concerns. It states:—“It may be remembered that the Prussian State Bank was accused of having made wrongful use of its capital after the inflation of the currency, when capital was very scarce. The Bank was alleged to have granted credits on inadequate security at rates between 10 per cent. and 18 per cent. to financial concerns, which in turn lent the money to others at 100 and 200 per cent., and it was suggested that the Bank would have done better to have lent its money direct to industrial and commercial bodies in need of it.” A typical instance this of the way in which Banks may use their credit to favour finance at the cost of industry and commerce. Many Bank failures may be traced to this disregard of their obligations to producers and traders, in favour of finance.

Recent events in Germany and the depressed exchanges ruling in other countries, show how readily, with the connivance of dishonest financiers, or under pressure from powerful combines of commercial or industrial magnates, currencies and exchanges may be manipulated to the National hurt though to the gain of individuals and even of the National Exchequer. The allusion is to the use of the depreciated currency for the redemption of mortgages, and even of State borrowings. In the fomenting of war, as well as in the reaping of its aftermath, finance is ever the dominant factor and in times of peace its actions may be no less destructive of true credit and obstructive to National progress and industry.

An instance of this has recently occurred at home. On April 29th, 1925, Mr. Winston Churchill, under pressure, partially revived the provisions of the Gold Standard, and the financial wonder-worker was at once put in motion. Applications were made to the Banks for credit, the rates for accommodation were raised, gold was attracted to London from abroad in the hope to find a more profitable field of usury, and in two months,

without any increase in production or commerce, the gold stocks were increased some £6,000,000—say, 4 per cent. This increase was acclaimed by the Press as evidence of the blessings of a return to the Gold Standard to a country that was loudly calling for a return to work. Business, however, was not forthcoming, the demand for credit ceased, the gold was recalled, and on October 22nd, 1925, the City article of *The Times* records the nett efflux of £3,225,000, 'in the current week' alone, with further large transfers in prospect in the immediate future. The swarms of golden butterflies have all returned to their native habitats, and the elves in golden raiment, summoned by financial magic, have vanished, together with some 9,000,000 of native sprites, amid the fogs of economic argument on the merits and demerits of a Gold Standard. The ways of finance are truly mysterious, for now we learn that the gold is largely American, and, as true sons of the financial prophets, the Banks excuse the loss with the cry—"Alas! masters, it was borrowed."

The export of gold is usually followed by restriction of home credit, and a rise in the charge for accommodation until further gold is attracted. And so the game of financial Badminton proceeds, and commerce suffers.

Currency holds no mystery; in finance it abounds. The question before the world to-day is this—How long is the employment of mobile capital—the results of past savings derived from National labour and stored by National thrift—to dominate present production, and to subvert instead of subserve the right of every man to live by the labour of his hands? The work of finance is the province of very few, the need to live is universal. The proceeds of finance are enjoyed by a class, the rewards of labour are the due of all.

What the world requires, and requires immediately, is a new form of credit. A credit circulating by notes and drafts, guaranteed by an aggregation of national credits represented by gold—since gold is internationally recognised as the representative medium of value. But, it must be gold demonetised, and made an absolutely free market, so that its value will no longer be arbitrarily determined, but will bear a definite relation to the average value of an essential commodity on which human life depends.

The unit by which this credit is measured must be independent of every National unit, and yet be commensurate with each and all of them on the basis of pure gold content, measured by weight, apart from any consideration of value. Thus the representative character of the medium will be maintained, and the commodity value or credit which it represents will circulate as pure credit, with the gold reserve—furnished on identical terms and under identical conditions by every participant—as an uniform guarantee of National good faith.

The transfer of the credit value should be coincident with that of the goods from which it derives, and the instrument of transfer should be restricted in its functioning to the one exchange in respect of which it issues. Thus commercial credit will be free from all machinations and manipulations of finance.

Such an International credit need in no way restrict the freedom of investors in the employment of their capital abroad, and may even provide for the transfer of dividends as destined for the most part to be employed for domestic exchange.

The transfer of capital will be effected, as now, through Banks, but the onus of providing gold, when needed, should devolve on the Bank issuing the Credit and not on the State. This can be as readily effected by means of a Joint Gold Reserve held by the Banks, as through a reserve raised by a charge on the National Exchequer, and held by the National Bank of issue to support a credit with which the National Government has no concern. No longer, then, will a National credit be assessed by its holding of gold, but on a true basis; while the transfer of gold itself will have no effect on International Credit since its guarantee will be securely stored.

The International Credit should emanate through licensed Banks who would purchase it from the Treasury Agents by the surrender of National obligations in the same way as they now acquire and issue National currency. As, however, the demand will be restricted, a charge under a schedule will be made for each draft issued *pro rata* to the amount, and payments for this will fall on the applicant in return for real service rendered. The applicant will pay for the International draft in his National currency at the fixed parity of exchange, and the payee will receive the equivalent value in his National currency,

free or at a nominal charge. Thus the International Bank becomes a conduit, or overhead carrier, for transferring a credit from one country to another, changing the form of currency in transmission.

Can anything be more simple? Goods while in course of manufacture would be financed, if required, by native Banks, and, on sale abroad, the necessary documents would be handed to the Bank advancing. These documents would be sent to the Bank's correspondents abroad, and surrendered by them in exchange for a draft to their full value in International Credit. If credit be required by the buyer, the Bank issuing the draft would take possession of the documents, and, later, of the goods when landed, as security for the advance, retaining their lien upon them until the advance was paid. Cash transactions would everywhere be the rule. Hence, there should be no lack of accommodation anywhere for traders in good esteem, while those who were not such would find difficulty in obtaining credit, and vendors thereby would be protected against possible, not to say probable, loss of goods.*

Where no advance had been made to the vendors, the latter, on receipt of the documents, would forward them direct to the buyer, or through a bank, as circumstances warranted, or require in advance a draft on the International Credit, payable at sight.

A National currency will thus be restricted in its circulation to National bounds, where it will be constant in value as legal tender. Its relation to the International Credit being determined by the ratio of the gold content of its unit to that of the independent unit, its parity must be constant so long as the weight of their respective gold contents remains unchanged. Thus money values will depend solely on commodity values and will be constant the world over.

Years of experience having determined the maximum requirement for currency in any given country, its Treasury will readily ascertain, through an increased demand, when and by what agency it is being diverted to purposes of finance. The restricted use of currency to its legitimate purpose need place no restraint on the transfer of capital from one country to another, which

* See further on p. 140f.

would still be effected by means of Bank Credit at the risk and cost of the Bank.

A word of warning. Constancy in the medium of exchange does not mean—and can never be made to mean—constancy in monetary value of the subjects of Exchange. On that, money exercises no influence and can exercise none, save that, international exchange having to be effected by an inconstant medium, price has always reflected any additional cost resulting from that inconstancy. Abolish the inconstancy, replace the variable medium by one that is stable, and the economic influences which regulate prices will function truly, and price will neither be augmented nor lowered by manipulations of the currency outside National bounds. Currency will function normally, measuring and recording the variations in value resulting from conditions and circumstances of production outside its sphere, and representing the recorded value until redeemed.

CHAPTER VII

CONDITIONS PRECEDENT TO THE INTRODUCTION OF AN INTERNATIONAL CREDIT.

"The people are on the side of Sound Money. They are so unalterably on the side of sound money that it is a serious question how they would regard the system under which they live, if they once knew what the initiated can do with it."—HENRY FORD, *My Life and Work*, Chap. 12.

THE essentials of a sound currency are :—

- a. That it be issued by constitutional authority.
- b. That it be constant at face value in every market.
- c. That the face value be variable only by the Authority of Issue.

As Currency is visible credit, it follows that the soundness of a currency will depend on that of the credit which it represents. Our first consideration, then, in dealing with an issue of International credit must be :—

1. *The Security.* A credit, as we have seen, must be based on substantial assets, and derives its intrinsic value from such assets. This fact once recognised, it becomes a matter of small importance by what medium the credit is made to circulate, or what ratio the currency bears to the credit so long as it functions solely as currency within its prescribed sphere, and is sufficient for current needs. Inflation,—the excessive issue of currency for the purposes of finance—is an abuse of currency by undue extensions of its sphere. This statement, bold as it may appear, is fully borne out by the evidence previously adduced. It is not the purpose of currency to assist in the transfer of National capital to foreign shores. Its duty is to aid domestic exchange, and so begins, and ends, at home. To make it subserve the purpose of denuding the State of its assets is suicidal finance. Capital

and currency can only come into contact in the course of *domestic* exchange, because the functioning of currency is limited to native bounds.

Disregard of this vital truth is the source of all currency difficulties and monetary complexities. Realization of it, and firm adherence to the principle involved is the only sure way of escaping them. The remedy shortly to be proposed has this always and consistently in view.

There is at present no International Credit, and consequently no International Credit-medium. Its place is taken by a form of credit issued without Government Authority and variable at the dictates of finance. This variable medium, being used as an indicator, is made the measure of a Nation's credit, though £40,000,000,000 can be dealt in, without a call on the National currency, which alone represents National credit and remains constant, however widely this spurious medium may vary. Hence arises the need for an International credit, issued by Constitutional Authority, based on National credit, measured by a standard unit distinct from all National units and yet commensurable with each, and thus rendered immune from the demands and manipulations of finance.

In dealing with an International Credit, we meet at the outset with a difficulty which, from a modern viewpoint, may appear insuperable. As demonstrated in Chapter I, credit must be based on assets, and as there are no International assets, an International Credit would seem to be impracticable. The difficulty, however, vanishes when we recall the enormous international turnover which, year by year, is being made on credits whose only recognised asset—gold—is held in such small quantities as to represent a very minute proportion of the turnover. And, after all, the ratio of gold to credit is a minor consideration, since the basis of a credit is the asset from which it derives, while gold is merely a visible representation of the credit thus derived.

Rectify your international circulation so that each draft or cheque shall function, as they do locally, in respect of some one exchange of assets, and the currency equivalent pass to a vendor concurrently with the transfer of the goods whence it derives, and the users of the medium will have as little regard to the

guarantee, as the user of a Currency Note has to the National Credit when he accepts or parts with it.

It is difficult, in the circumstances under which this book is written to obtain the data necessary for even an approximate estimate of the ratio which currency-gold bears to the world's financial turnover. Starting from the figures for London, given in the Report of the Bankers' Clearing House for 1924 as £40,000,000,000, assuming that the turnover in the United States was, at the lowest, equal to that sum, and taking the turnover in all other countries as equal to the total of these two, we have a total annual turnover of, say, £160,000,000,000. The world's store of gold in 1914 was estimated approximately at 1,000,000,000 ounces, of which some 400,000,000 ounces were devoted to currency purposes. Adding 200,000,000 ounces for Stocks acquired since 1913, and assigning the same proportion—two fifths—to currency, we obtain estimated totals of 1,200,000,000 ounces and 480,000,000 ounces respectively. At British Standard 4 ounces of pure gold are required for 17 sovereigns, and on this basis 480,000,000 ounces of gold would mint into 2,040,000,000 sovereigns. On these figures the ratio of currency-gold to circulating credit would appear to be 1.275%, or, if the velocity of credit equal that of currency, less than $6\frac{1}{2}\%$ of the available credit.

As previously stated, there exist no data for determining what portions of the total turnover represent domestic and foreign business respectively. This much, however, is probable—the world's currency-gold bears to the world's credit turnover—whether circulating as Currency or Bank Credit—a ratio not exceeding $1\frac{1}{2}\%$. This small store of gold is distributed in larger or smaller quantities among the National Treasuries as a tangible guarantee for their respective credits; and, in the absence of an International Credit, forms the recognised monetary basis of all credit-instruments circulating internationally on private initiative.

Seeing that the stock of gold held by individual nations varies normally—and under the influence of temporary circumstances and conditions to a very wide extent—it is evident, that, so long as its stock of gold is deemed the index of a Nation's credit, a fluctuating exchange is inevitable; and, since the protection

afforded bears so small a ratio to the circulation, the larger the stocks of one nation, the wider must be the variation for all others, and the more restricted their opportunities for trade expansion.

Assume for the moment that an International Credit is to be issued with this same gold as guarantee. It has already been proved, that for domestic purposes a gold guarantee is wholly unnecessary and can, therefore, be dispensed with. The only change necessary would be a transfer of the gold guarantee from the National to an International Authority acting as Trustees not for one only, but for all Nations participating. The National or other representative Bank acting for the National Treasury might still retain charge of the gold—since there can be no reason for suspecting that a leading Bank would be less honest towards an International Authority than to their National Government or a private customer. Their own National interests and honour would still be involved jointly with those of all other participants, and their own external credit secured thereby in no less degree than when they acted for the Nation only. The medium of circulation being inaccessible to the *personnel* of the Currency Board, defalcation by officials needs no consideration, especially when all drafts will have had the endorsement cancelled before reaching a Representative Bank. There would be a change of customer, but none either in the scope and functioning of the gold, or in the interests subserved. For the promotion of confidence, and as a matter of common caution, it would be well to select as Repositories those centres where a stable Government exists, as there would be no occasion at any time to effect a transfer.

Seeing, then, that the present medium of international exchange—Bank Credit—has only the most remote connection with the National Credit represented by currency, it would be a sound and advantageous step to inaugurate an international medium approved by National Authority, based directly on National Credit, and guaranteed by the transfer to a Central Authority of an uniform percentage of that gold which is now held in each National Treasury as an unwanted guarantee for its domestic currency, which Bank Credit is conventionally supposed to represent but does not. Such a credit would have

behind it the assets not of a single Nation but of the whole world, possessing a value wholly incommensurable by the world's store of gold, even if taken at its inflated monetary value. The percentage which the guarantee is to bear to the total Credit will be a matter of arrangement, and must be largely influenced by the condition of circulation hereafter to be discussed. It must be sufficient to induce unlimited confidence, but, whatever be the percentage, it must not only be the same for every participant—if the Credit is to function uniformly—but it should be raised uniformly by the same means, and be passed over to the Central Authority of Issue at the same times and in the same proportion.

2. *The International Unit of Value.* It has been demonstrated that much of the existing confusion and instability of our present system of International Exchange is due to the fact that a national, instead of an independent unit, was made the unit of reference in determining the relative parities of national currencies. A simple illustration should make this quite clear. Given a series of National units represented by the letters a to z , it is desired to establish the relative value of each to each, with a view to facilitate their exchange internationally the one for the other. If any one of these units, say a , be chosen as the unit of reference, it follows that any circumstance which tends to disturb the parity of, say, z to a , will also impair the parity of z with every other nation, although the disturbing element may concern a and z alone. And the same holds good for every other unit of the series.

Again, if the unit a be chosen for the reason that it is the unit of the Nation most prominent in commerce, it follows—If, owing to any adverse cause or combination of causes, this Nation loses its high position, it will no longer be the centre of commercial credit—the position being taken by that nation which has surpassed it in production and exchange. The latter Nation, having gained the dominant position in exchange, will be in a position to dictate the terms on which it will accept gold in exchange for its own products. As a consequence the unit of reference will be reduced to a discount, and the whole commercial world be thrown into confusion, by the disorganisation of the exchanges.

If instead of 'a' an independent unit of value—call it the 'Mundic' or 'world unit'*—had been established, consisting of the weight of pure gold contained in 'a' without any reference to the artificial value assigned to gold, the parity of each unit in the series, 'a' included, to the Mundic would be determined, as now, by the ratio of its gold content to that of the unit of reference. No question, however, of variation in gold value could have arisen, and the effects of National disturbances—whether political, physical, industrial or financial—would have been restricted to National confines, provided the guarantee deposited with the Central Authority had been completed and remained intact. It will be quite unnecessary to assign to the 'Mundic' a value expressed in terms of currency, as the parity of value is to be determined by weight alone. The monetary equivalent in terms of a given currency will be determined by the value assigned by National Statute to the gold content of its unit.

Some may ask—If gold is to be demonetised, how is the weight of the Mundic to be determined, so that it may truly and directly represent commodity value?

By ascertaining the monetary value of one or a group of commodities averaged over a long term of years, measured by *any* existing monetary unit and expressed in terms of the gold content of that unit as defined in the National Statute. This of course, implies the demonetisation of Gold for International purposes, and its return to its legitimate function of representing—or rather, by convention, guaranteeing credit, since it represents

* In *A Fluctuating Exchange and the Remedy* the author adopted the term 'Mundic,' because as a hybrid it could not be deemed special to any one Nation. As, however, the friend who has acted as reader takes exception to the word on the ground that it is a hybrid, he would now suggest either of the two following:—

1. The Roman 'as'—a measure of weight, chosen later to denote the unit weight of metal selected as the measure of value, and, therefore, well adapted to denote the weight of gold selected as the representative unit of commodity value; or

2. The Peruvian 'sol'—because as the sun bestows his blessings universally, but in measure adapted to the individual requirements of Nature, so the International Credit will bestow its blessings universally, but in proportion to the needs of the individual nation in the sphere of commercial exchange.

As both the latter have already been adopted as monetary units, the original 'Mundic' is here retained for consistency's sake.

such a minute portion of the credit in circulation. Any possibility of variation will thus be excluded so long as the weight of the International unit—the Mundic—remains unaltered. Gold may still be monetised nationally, if so desired, but the Nations who most strongly advocate a Gold standard as facilitating International Exchange are, for economical reasons, restricting its circulation within National bounds. The tendency is to recognise credit as the true basis of currency, and to consent to currency circulating by credit instruments.

It has been suggested that the International unit should be based on the index of prices representing the current cost of living. The norm of Index prices is taken at 100 : but this is pure assumption, and represents nothing more than the average of prices for a given year. These Index prices vary so rapidly in point of time, are due to such an extensive range of circumstances and conditions, and are so largely dependent on the standard of living in each country, that it would be exceedingly difficult to determine a truly representative figure, or to ensure its constancy for any length of time. A basis, much more accurate and constant, will be furnished by averaging over a long term of years the recorded price of a commodity in general demand the world over for the maintenance of life, and in which most nations are interested either as producers or consumers. Wheat has been selected as most fully meeting these requirements.

If our 'Mundic' is to represent a weight of pure gold, it will be imperative to compare *weight* with *weight*, and the weight of wheat suggested is that of 4 bushels—240 lbs. It matters not with what National unit the comparison is made, since we are concerned with the weight of its gold content and not with the monetary value assigned thereto. Seeing that England furnishes the largest market for wheat, that Liverpool prices are generally regarded as the world's norm, and that the sovereign is now the unit of reference in determining the Exchange parities, our price equivalent may well be expressed in terms of the British sovereign. It stands to reason, the longer the term over which the average is taken the wider will be the range of conditions and circumstances which have determined prices in the past—and, it is but just to assume, will do so in the future—and the more truly representative should be the resulting unit.

One must not, however, ignore the effect on prices due to the increase in area now under wheat, and the immense strides in the science and practice of agriculture during the last 50 years. The average will, therefore, be more truly representative of modern conditions if confined to that period. Another reason for so doing, may be found in the fact that in 1870 the duty on imported wheat was abolished in Great Britain, and has never been re-imposed save for a brief period of 14 months—from April 15th, 1902 to June 30th, 1903. Disregarding this temporary impost on imported wheat only, the average for the 50 years 1871—1920 will represent a period during which the wheat market in England has been free from any impost.

The average price of four bushels or 240 lbs. of wheat for these years—1871 to 1920 inclusive—kindly furnished by the Ministry of Agriculture and Fisheries—was 19s. 11.55d., or within a very minute fraction 1d. per lb. This furnishes an aid to memory—the gold content of a sovereign, *i.e.* of 240 pence, is practically the normal equivalent of 240 lbs. of wheat.

What weight of gold does this 19s. 11.55d. represent ?

The statutory weight of the sovereign in standard gold is 123.27447 grains. Deducting one-twelfth of this weight for alloy, the pure gold content of the sovereign is 113.0016 grains. The average price given above represents $\frac{4791}{4800}$ ths of the sovereign, a deficiency of $\frac{9}{4800}$ ths in money value or .211878 of one grain in pure gold content. The “Remedy of weight”—the variation in weight allowed for coins newly minted—is 0.20 of one grain in Standard gold or .183 of pure gold—a difference of .0285 of a grain, which may be disregarded. This will leave the parities of exchange unaltered. The parity, however, will no longer represent an arbitrary money-value, but will denote the number of units in each National currency which contain the normal gold equivalent in weight of 240 lbs. of wheat. And, so long as the gold content of the international unit remains unchanged, parities the world over can remain as now.

It would, however, greatly simplify international calculation and book-keeping, if National units were altered so as to represent a proper fraction of the international unit, and the latter itself fixed at an even number of grains. Nor would such alteration involve any disturbance in domestic currencies, since there are

few nations which in practice retain gold as the circulating medium. Assume that the gold equivalent of the Mundic has been fixed at 120 grains, the sovereign might be then fixed at 120 grains, the franc, peseta, leu, lira, drachma, etc. at 6 grains, the United States and Canadian dollar at 24 grains and so on. This would give a parity of 1 to the sovereign, 20 to the franc and kindred units, and of 5 to the dollars; but the change would only concern Bankers, and them only in regulating the payment in National currency on the issue or retirement of an International draft. Once accustomed to the change, even their officials would ignore it. Fractions of the Mundic would be expressed in decimals, and the mysteries of International exchange would be within the comprehension of a child. Such change, however, is practically non-essential.

On a currency circulating within legal bounds, the change would have no effect whatever, so long as National sub-divisions remained unchanged. Does anyone passing or accepting a Currency Note give a thought to the statutory weight of gold which it professes to represent? A sovereign would then contain $\frac{1}{4}$ oz. of pure gold, a shilling would represent 6 grains not 6·163273 grains and a penny half a grain of gold, not ·5136435 of a grain. As, however, the Currency Note would still be a voucher guaranteed by the State for 20 shillings in goods or service, the influence of gold on prices would be nil. There can be an absolutely free market in gold as a metal, for a rise or fall in price will not affect the weight, and on this the International Exchange is to be based. The markets of the world will be open to all nations on equal terms, with one and the same medium of exchange, and that constant in value and invariable save by the International Authority of issue.

National units, therefore, may be changed or not, and National Currency circulate in any form approved, for once the percentage of the gold guarantee has been fixed by International agreement, the International credit will circulate in terms of the International unit, and how few or how many National units are deemed its equivalent will concern traders and bankers only.

The sovereign having served its purpose in determining the gold content of the Mundic, its influence and, with it, that of all other units on International Exchange will cease; and the

relation of all units to the Mundic will be determined by the ratio of their respective gold-content. National units and currencies may change as need requires, but, so long as the gold content of the Mundic is fixed by International agreement and maintained, National disasters and complications, from whatever cause they spring, will cease to involve other nations in their effects—save only, be it hoped, to evoke brotherly sympathy and practical aid.

Currency will everywhere function as designed, and will no longer be wrested to hamper and obstruct production, transport and exchange, which it is primarily designed to facilitate. It is surely time that we ceased to take advantage of a brother nation's misfortunes, to impose, as a condition of assistance, such terms as must handicap him in the exchange of his labour and products in the markets of the world. In these days of fashionable dog-culture, the policy of "dog-eat-dog" should be no longer recognised, and only heard of in the society of pariahs and mongrels.

3. *The Medium of Circulation.* The working of an International Currency will need to proceed on practical business lines, and to be supervised, if possible, more thoroughly than that of an ordinary Bank. The books will need most careful auditing, and this can only be possible provided there be a recognised medium, circulating between Treasury and Treasury in confirmation of the entries as exhibited. The Bonds issued to individual nations would need to differ—at all events, while the Guarantee Fund was in building—since it would be most unwise, not to say unjust, to extend the time so as to admit of payment by instalments, without granting some powers to compel the due observance of the dates appointed for payment. An uniform credit can only be possible provided it be uniform in every detail. The Board must be vested with powers of suspension on default, and of final cancellation should a Government be unable to make good its position during the period of grace allowed. Such powers are in the interests of all participants and cannot prove unjust to any Government, seeing, as will be shewn later, prevention lies wholly in its own hands, and the obligations incurred are to be pro-rata the same for all. Such powers would be in the nature of a divine law, the observance or non-observance of

which is wholly in the power of the subject, but the consequence of disobedience inevitable. Once, however, the Guarantee Fund is completed, differentiation would be no longer needed, and the notes may then be of uniform character. The amount of credit of each Nation could be determined each month individually by the representative Bank and internationally at the International Currency Board, and published, in the same way as those of Central Banks are made known week by week, if so approved.

For individuals, the International Credit would circulate by draft obtainable from a licensed Bank, which would obtain control of a portion of the credit from National or Representative Banks acting for the Treasury, by the deposit of National obligations to the amount required. This again would tend to reduce liabilities of the National Exchequer and would help to defray the interest on any Bonds issued for the purchase of gold. It should, however, be remembered that the circulation would be limited to a comparative few—merchants and traders—and Banks would, therefore, recoup themselves for the accommodation and service rendered by a charge for each draft, the same to be specified in a schedule previously sanctioned by the Treasury authorities. This charge should have as its basis the loss of interest sustained by the Banks through the deposit of securities, with due regard to the service rendered, and, if thought desirable, could include a National stamp duty. The draft would be drawn in favour of the applicant and paid for in National currency, or by transfer of credit to the Bank by means of a cheque. If the customer were called upon to endorse it in favour of his foreign creditor, to name the Bank through which the draft was to be cleared, to give the nature and value of the goods and to assume all liability for the same other than that covered by insurance, the draft would contain all details of the transaction and might be admitted as legal evidence.

Country Banks could operate through their London Clearing Agents who would furnish the requisite books of forms.

Letters of Credit and occasional accommodation rendered to travellers or customers temporarily resident abroad could be provided for, as at present, through their foreign correspondents, and monthly balances transferred at parity by draft on the International Credit.

The Credit might also be utilised for the transmission of dividend payments and remittances on account of annual expenditure—other than Capital—between Head Offices in any country and their sphere of operations abroad.

This principle of "one deal one draft" would do away with the need for extended credit in International exchange, would recognise the true origin of credit by making any needed monetary provision inseparable from the possession of the goods, and tend to reduce the worst forms of speculation.

In cases where goods are consigned for sale on commission, a Bill for the amount agreed would be drawn on Bank or private credit, and the amount of this included in the draft on the International credit on its surrender at the time of final settlement.

A most important consideration in this connection is its influence on the amount of International Credit which would be needed by each Government. With prompt settlements the Credit could function not five but ten or even twenty times yearly, if needed, in which case the cost of the Guarantee Fund and consequent tax on National resources would be proportionately reduced.

It should also tend to reduce the percentage of the Guarantee Fund, since in each transaction the credit would only be pledged for the brief period required for the transfer and clearance of the draft, or, at the most, till the safe arrival of the goods against which the credit is issued. The less of the world's capital that is tied up in the guarantee of credit, the more will there be available for improving the conditions, and raising the standard of National life. Moreover, the lower the ratio of the Guarantee to the Credit, the greater will be the inducement for every Nation to participate therein, seeing that a gold contribution of 50 or 25 per cent. will give them the command of International Credit to twice or four times that amount.

But "safety first" must be the guiding principle. The greater the mutual confidence and trust inspired by every phase of International dealing, the better will the way be cleared for further advances, and the brighter will be the prospects of International peace and amity.

4. *The Authority of Issue.* To be sound and constant an Issue of currency must be made by Constitutional Authority.

No such Authority vested with International powers as yet exists, and, although, since 1919, a nucleus has existed in the League of Nations, membership of the League is not yet universal, and its scope of action is restricted.

At present it functions as an Advisory Board, but there have been occasions when, on its own initiative, it has prepared and later, with a mandate from its Council, has put into action schemes for resuscitating National Credits. Allusion is here made to the Austrian Loan of 1922, of which more will need to be said in a subsequent chapter. Some months after the issue of the Loan, there appeared in the "*Times*" of July 11th, 1923—an evidently inspired article on "The Aims and Objects of the League of Nations." The correspondent, writing from Geneva, stated that the scheme had been drawn up some months before a mandate from the Council permitted the issue of the Loan under the protection of the League. From this, we may justly infer that, unless the League acted *ultra vires*, it has a power of initiative controlled by authority. The concurrence of America, a non-member of the League—as evidenced by her co-operation—not only lends credit to this deduction but induces the belief that she approved the act itself; unless we adopt the alternative that the power of the almighty dollar over-rode the matured conviction of her responsible advisers.

These incipient powers can easily be extended by general action on the part of the members, approved by their National Parliaments, so as to vest the League of Nations—if necessary by extension of its existing powers—with the authority to inaugurate an International credit, on lines, with powers and under restrictions duly weighed and formulated by the Council of the League, and submitted to its constituents for the consideration by their National Parliaments prior to a full meeting of the League delegates to urge and debate the inauguration. Subsequent to this meeting the League Council would, if necessary and after full deliberation on suggested amendments, submit an amended proposition, and if this, after further reference to National parliaments, should be approved by the majority, then and not till then should the necessary power be conferred. Thus the issue will be by National Authority, and since currency is a pledging of credit, the principle—"no taxation without

representation " will be fully observed. Further, the form and amount of the guarantee, the rules governing its provision, the basis and terms on which the grants of credit are to be made, the method of circulation and the powers of compulsion to be granted, with a view to ensure the due fulfilment of contracts will have been agreed in advance. The League will thus take up the position of Trustees for each National Exchequer in achieving an international purpose, designed to afford to the world at large the benefits of a sound currency on lines approved by National Assemblies. The final decision would thus be a true consensus of National opinions.

Once vested with authority, the League of Nations would proceed to take action in the manner prescribed, and an International Currency Board would be established possessing just so much power as the Nations had decreed and no more.

The Credit would be inaugurated and made to function as a Credit on the guarantee and in the manner prescribed by the Constitutional decree of its constituent members.

One vital restriction there must be if the Credit is to fulfil its purpose without the domination of finance, it must be used solely as the handmaid of commerce and production, leaving financiers to achieve their ends by the existing system of Bank Credit and to provide its necessary guarantees. It is possible that agreement on this subject might later furnish opportunity for reconstituting the League of Nations on lines less befitting a composition between victors and vanquished inspired by the sense of injuries received which then prevailed, and to make it in reality "*The League of Nations.*"

It would be quite possible to inaugurate an Imperial or a combined Imperial and European Credit on the lines here sketched, but its action would be partial—not universal, and the tendency would be to divide rather than consolidate International action. Nor would it operate—as an International Credit alone can do—to open up the markets of the world to a mutual exchange of products on a common basis of value, measured universally by an independent unit, and functioning by the same instrument. Nor should the influence of such a credit on the world's peace by promoting and cementing mutual

confidence be overlooked, and this no partial circulation could be made to exercise.

The way has now been cleared for the consideration of the proposed new system and its mode of operation.

CHAPTER VIII

PROPOSALS FOR AN INTERNATIONAL CREDIT CONSTITUTING A STABLE EXCHANGE

“ This much we must believe as a starting point : That regardless of the frailties of human nature, our economic system can be so adjusted that selfishness, although perhaps not abolished, can be robbed of power to work economic injustice.”—HENRY FORD, *My Life and Work*.

PROPOSALS

1. That an International Currency Board be at once formed by the League of Nations to act within clearly specified limits, and under conditions and regulations previously approved by the Governments represented at the League, and that non-member Nations be invited to co-operate.

2. That the powers of the International Currency Board be confined to the inauguration, issue and administration of an International Credit, open to every Nation whose Government can satisfy the Board that they are able and willing to meet the requirements imposed on every participant, and to make the necessary hypothecation of import duty required of each and every participant to raise its pro rata contribution to a Guarantee Fund in gold; to negotiate and arrange loans either for International purposes approved by the League or between Nation and Nation, always provided that the service and redemption of such loans be met from funds imposed by special import duties, with a view to avoid all interference with domestic finance, and to carry out such other financial operations as may hereafter be entrusted to them by the Council after a general referendum to the members constituting the League.

3. That the International Credit be formed by an amalgamation of National Credits, and be guaranteed by an International

Store of gold jointly contributed by all participants, bearing such ratio to the Credit issued as may be deemed sufficient and efficient, and that the same be placed in the custody and control of the International Currency Board as Trustees for all Nations participating, and be stored in such central repositories as the League Council may determine.

4. That the circulation of the International Credit be as follows :—

(a) Between Treasury and Treasury by notes of suitable denominations,

(b) Between individuals by drafts,

both expressed in terms of an International unit, and that this new unit be the ascertained weight of pure gold representing the price of 4 bushels of wheat of standard weight—240 lbs.—averaged over 50 or more years, or such approximation thereto as may be deemed most convenient or tend to simplicity.

5. That in determining the weight of the new unit the prices recorded by the British Ministry of Agriculture and Fisheries be adopted, and that the average price be expressed in terms of the British sovereign—the unit already adopted as the unit of reference in determining the parities of exchange.

6. That the gold content of the International Unit having been thus determined and approved, the parity of each National Unit thereto shall be determined by the ratio in weight of their respective gold content, and, this being once determined, the National Unit, if altered, shall always be a simple fraction of the world unit measured by gold content.

7. That the International Credit, while based on National Credits, be substantiated by a Guarantee Fund in gold, to which all Nations participating shall contribute *pari passu*, by instalments *pro rata* to the grant of credit issued to each, and that such instalments shall be raised uniformly by an *ad valorem* duty on imports only, sufficient to meet all requirements of the Board under the terms of issue; the amount and number of instalments to be regulated by the time allowed for the completion of the Fund and the ratio of gold to credit deemed essential, and the instalments to be paid annually in advance.

8. That the grant of credit to each participant be contingent on the transfer to the Board of gold representing ten per cent.

of such Credit grant measured in terms of the International Unit, and the balance by instalments; and that each instalment cover not only the portion of the Guarantee Fund required for the year, but such further percentage as may be agreed upon as necessary for expenses of inauguration and administration.

9. That the grant of credit be further conditional on the grantee Nation entering into such engagements and hypothecations as the Board shall require from all participants and further, demonstrating, to the satisfaction of the Board, that the duty proposed will suffice to meet the Board's requirements in full.

10. That the amount of each grant be based on the average imports into the country during the three years last past, and equal such portion of the same as shall be represented by the fraction $\frac{4x}{y}$ —where x =the value of imports and ' y ' denotes the number of times which the credit may reasonably be supposed to function in the course of each year—together with an additional one-third of that fraction— $\frac{1}{3}$ of $\frac{4x}{y}$ —to cover remittances to and from the Head Offices of Companies in one country and their sphere of operations in another, and the payment of interest on National loans held abroad.

11. That, it being desirable to complete the Guarantee Fund in the shortest time permitted by the general demand for gold, in order that the credit may function uniformly on the agreed percentage, and that any restrictions imposed on commerce by the duty on imports may be removed as speedily as possible, the annual instalments shall in no case exceed fifteen in number, nor be less than ten; but as a safeguard against possible attempts to raise the price of gold unduly, the Board shall have power, subject to the consent of the League Council, to suspend instalment payments for a term until arrangements shall have been made by the Council for a supply of gold at a fair uniform price.

12. That, to meet the requirements of such Nations as, owing to impaired credit or loss of productive plant, are unable to meet the initial charges of ten per cent. plus the first financial instalment, the International Currency Board be empowered to raise a Fund in gold sufficient to advance the whole or part of such initial payments, if and where needed, against the hypothecation of further duties on imports, additional to those required by the

Guarantee Fund, and sufficient in amount to yield the annual sum required.

13. That this Fund be raised by the issue of a Gold Loan bearing interest, say, at $3\frac{1}{2}$ per cent., and repayable by instalments, to cover both principal and interest, numbering one less than those allowed for the completion of the Guarantee Gold Fund.

14. That failure to meet any instalment when due to the Currency Board be met by the suspension of the credit granted to the defaulting nation during a term of grace, and if not then made good, by cancellation of the Grant of Credit to such Nation and the forfeiture of all gold already deposited as a guarantee; and that to meet such a contingency the Notes issued to National Treasuries be differentiated until the Guarantee Fund be completed.

15. That the International Credit circulate between individuals by drafts obtainable from licensed Bankers to be paid for and cleared in National Currencies, Banks being entitled to make such charge for the accommodation as shall be fixed by a Schedule to be approved by their Treasury Authorities, and that these drafts be available only for the one commercial purpose specifically named thereon.

16. That the duties be paid in monthly as collected to the National or Representative Banks, and be by them employed for the purchase of gold, the same, on payment to the Board, to be transferred to such approved repository as the International Board may direct, and a receipt signed by duly appointed officials, and counter-signed by the President of the Board be sent to the Official appointed by each National Treasury making payment.

17. That the transfer of Capital employed for purposes of usury, whether as Loans or Investments in foreign undertakings, be effected as now, through the medium of Bank Credit, and that no State incur any liability either in connection with the instrument employed or the guarantee therefore, which must be provided by those who issue the Credit or profit by the issue thereof.

18. That should the sums herein provided prove insufficient to cover the Board's expenses, the deficit be levied on all participants *pro rata* to the grant of credit made to each.

The Authority of Issue and the Constitution of the Credit having been discussed at length in the preceding chapter, con-

sideration of the proposals may well begin with the enquiry—What do these proposals actually imply, and what essential changes in the existing system to they involve?

Consider first the existing medium of foreign exchange. It consists of Bank or Private Credit circulating by drafts, without any constitutional control over the issue and without any definite knowledge of the security on which the Credit is based. To furnish a visible guarantee for this unknown credit—it cannot represent it, since the total visible currency amounts to no more than £450,000,000 while the annual Credit turnover is £40,000,000,000, and allowing that currency functions five times yearly, it can represent no more than one-twentieth part of the circulating credit—the Exchequer has tied up £150,000,000 of National Capital in the purchase of gold to be available at call for the redemption of instruments of Bank Credit over the issue of which the State has no control, and in the use of which as well as in the benefits and profits derived therefrom, but a very small portion of the community directly participate.

This Bank Credit widely differs from our National Currency which now circulates by a similar medium, though with no other guarantee than the National Credit. All the gold in the world could not *represent* British credit, while, within National Bounds—its proper sphere—it needs no guarantee. Moreover, Bank Credit circulates by such means and in such a manner as to reflect any and every disturbing influence—no matter where it occurs nor to what cause it be due—through the medium of exchange, on which production and commerce at present intimately depend.

The proposed system also consists of a Credit circulating by drafts, therefore, in principle and in mode of operation it is the same. But the International Credit is to be an aggregation of *all* those National Credits in terms of one or other of which Bank Credit is expressed, but on which it has not the remotest claim seeing that legally it can claim redemption only in National Currency which is not legal tender abroad. Thus the new system is in theory and in fact,—what the old wrongfully claims to be—truly representative of National Credits, and, in addition, constant to their statutory values, which Bank Credits never have been.

National credits are controlled by National Governments and no pledging of the credit can be made without a mandate from the Representative Assembly. The issue of the new credit is to be made and controlled by a duly constituted authority acting as Trustee for the whole world under a mandate from each several Parliament. This mandate defines its form, issue, basis of allotment, its security and the method of providing the same—in a manner and by means identical for all—and its guarantee in gold, the medium at present falsely recognised the world over as actual wealth.

In all this there is no change save that truth is substituted for fiction and substance for shadow.

The only changes other than this fundamental one from assumption to fact, are these—The unit of value, by which the new Credit is to be measured and in terms of which it is to be expressed, is to be independent of all National Units, and is to be based on the weight of gold representing an ascertained commodity value as a Credit for which the commodity actually provides the asset.

The one omission is the monetisation of gold—the appraising it at an arbitrary value apart from the commodity credit wherein its intrinsic value as currency lies. This is the one disturbing element in the world's Currency system, because while the use of Currency cannot be concerned in International Exchange, finance can, by its command of gold, render itself independent of all constitutional control and so dominate every phase of human activity, both those of Governments and of the communities they represent. The power to export gold under restrictions is not merely a premature action, but involves a policy of retrogression, It is a return to a system of Exchange as faulty as it is aggressive and oppressive, which Economics, despite the harangues and articles of its professors, has quite outgrown, and which in our National currency we in Great Britain have discarded even in theory, and America has discarded in practice.

At the present moment every effort is being made by certain financiers and financial economists not only to consolidate but to extend their power, by urging that the control of finance and currency should be entrusted solely to Banks, free from the authority and supervision of those who are sole trustees of the

credit on which currency is based, and from the assets of which all value derives. In other words, the accredited guardians of the National Economy are asked to cede their office to others, and to adopt the tenets of the new cult—followers of a science falsely so-called—which would fain set up gold as Lord Paramount over humanity. This new cult aim to exalt an instrument designed as a servant to be the supreme arbiter of life.

Section I. By vesting the League of Nations with authority to act as Trustees and Administrators of the International Credit the power of finance over currency and exchange—which involve production—is at once curtailed; but the obligation and the power of National Trustees to discharge their trust with efficiency are not only re-affirmed but strengthened. History and nature alike assure us that while economic laws in principle remain unchanged, time and circumstance may so modify their working as to induce adaptation to environment. Hence the creation of a Trust to consolidate National responsibilities beyond national bounds, would but extend the constitutional right—no taxation without representation. There is not a particle of the human body which does not play a part in the construction, development and functioning of the brain. There is not an elector in the body-politic who is not in theory—and should be in verity and practice—responsible for the due administration of National trusts; and if these be not rightly administered, then the responsibility is his for entrusting their administration to incompetent hands. Something more is required of National Representatives than the ovine capacity to follow the party bell-wether through a given gap—the Lobby door.

Moreover, the appointment would give the League a definite purpose, intimately concerned with the object which brought it into being—the promotion of universal peace—by generating and confirming that mutual confidence and trust without which its purpose cannot be achieved.

At present the League is at best an imperfect body, still lacking some of its members, and as such incapable of demonstrating either its purpose or its sincerity in fulfilling it, by doing away with the old leaven of malice and wickedness and substituting therefor the life-giving principles of sincerity and truth. World-freedom can be won only by a fuller knowledge of truth; for it is

knowledge of the facts of human life which alone can help us to discern the false, and devise sound means of reformation. The rule of might is not yet obsolete, but not yet has it transformed itself into right, and never will.

But the League of Nations, like a National Parliament, largely reflects the preconceived ideas of its constituent members, and in drawing up the constitution and regulations of an International Credit the two essentials must be—to decide as to the desirability of such a credit, and, if the decision be favourable, to keep ever in mind the true origin, design, and function of a credit. The first has been already decided by the Report of the American Delegates to the Peace Conference at Versailles, and, for the second, not only Bankers, representatives of finance, and delegates of gold-producing countries must be selected as members, but men who are more concerned and have more regard for its design and use, than to the medium by which it circulates; men who, recognising the importance of stability to production and exchange, are prepared to discard all elements of instability and to base their action on the true principles of economy and the promotion of equity to all. The one essential for those who frame the proposals must be to keep ever in mind the origin of a true credit, its design and functioning, and to give the greater weight to its use, not to the material by which it is guaranteed.

It must be admitted that the previous efforts of the League in this direction do not afford substantial grounds for confidence, threatening as they do both the comity of Nations and international equity. It should, however, be recognised that the officials had to base their scheme on existing conditions, and to regulate their actions by existing methods, and had no authority to inaugurate new.*

Thus their action in the case of the Austrian Loan should not of necessity be taken as an indication that they approve the conditions under which the scheme was framed, though this does not preclude honest criticism of the scheme itself. Criticism, even if adverse, may serve to disclose to its inaugurators wherein a proposal fails and, at the same time, to suggest sounder principles and wiser methods, alike tending to more sure and equitable results.

* See Chapter X.

Section 2. This section clearly defines the duties of the Board as Trustees, and the conditions precedent to any grant of Credit, both of which must—prior to the granting of the necessary authority—have been considered by all and approved by a majority of the Nations constituting the League. The participation of non-members will be evidence of their assent. The duties imposed on all participants and the methods of fulfilling them are identical.

The further powers suggested may in both cases be deferred until the structure of the Credit, and its administration have been tested and approved.

Their object is to restrict the use of the Credit to purposes of commerce and production and at the same time, to make the services of the Board available to promote international Loans on absolute security and consequently at low interest.

Section 3. In a previous chapter it was demonstrated that no matter what form or material the Credit medium assumed, all currency was directly secured on the National Credit, and derived its intrinsic value from the assets on which that credit was based. By requiring every detail of the International Credit—its inauguration, issue and administration—to be submitted to and generally approved in advance by International Parliaments represented on the League, the Credit will as truly emanate from and be representative of each National Credit as the National Currency itself.

This being so, and inasmuch as gold is not essential to the free function of a domestic currency properly regarded, there can be no reasonable objection to the transfer of a whole or part of the National Gold Store to the administrators of the International Credit as Trustees, to serve, as now, as a visible guarantee of that Credit. As evidenced by the Bankers' Clearing House Report—the only function of gold in relation to exchange, excluding its transfer for purposes of finance, is to guarantee the inefficient form of Credit instrument now circulating without authority on private initiative. Under the proposed System there will be no need for any gold movements on currency account, and its bestowal in Central Repositories will serve every necessary purpose that it now fulfils.

The percentage of gold to the total credit which will suffice to establish it as a reliable medium of exchange will depend largely on the mode of circulation between individuals. In fixing this percentage there are three considerations which may serve to guide us. Opinions are no guide unless they are based on due consideration of *all* the facts and premises. Predilection or prejudice are too often "Will-o'-the-Wisps."

The first of the three considerations is this. If the method of circulation is to receive the previous approval of all Nations participating, such general approval will have the force of an International Convention constituting the Credit legal-tender. Such general approval should tend to reduce the percentage of the guarantee, which, since the Credit is to be uniform in character, will prevent the unnecessary lock-up of capital by all Nations.

The second consideration is the mode of circulation between individuals. If the credit circulate by draft, and the function of each draft be limited to the individual transaction for which it is issued, it stands to reason that the credit may well circulate ten or twenty times yearly instead of five only. In this case, too, the tendency will be to reduce the percentage, since the Credit will only be pledged during the brief time intervening between the issue and clearance of the draft.

The third consideration is the evidence furnished by past experience. In pre-War days—when trade was as normal as it could be with a faulty medium of exchange, and when the greed of gain was less pronounced in every branch of trade and finance—Banks found it possible to fulfil all obligations to their customers, domestic and foreign, on a percentage ratio of cash—gold, silver and copper—to liabilities not exceeding 1 in 8 or 3 in 20.

The difference in circumstances too must not be forgotten nor the trend of public opinion. Closely as economists cling to ancient predilection and misplaced deduction falsely elevated into a science, the tendency in practice is to regard Credit, and not gold, as the true basis of a currency and to let it circulate in the form of credit-instruments or tokens. Gold is thus regarded as evidence of the invisible assets behind the Credit, and the tendency—from the commercial though not from the financial view-point—is to regard currency as a medium only, and to rely

more on the intrinsic value than on the outward presentment, which in this, as in many other cases, may grossly mislead.

Herein lies the difference in circumstance. In a law-abiding community the people *credit* the Government with the ability to maintain and enforce its laws. In a newly constituted International combine such credit is little more than potential—at best a germ. The constitution of such a body is evidence that the germ is there, and its *raison d'être* is to foster and develop the growth into a perfect unity. But—"the time of harvest is not yet."

This is the one consideration calling for caution, and may justly require the percentage to be fixed at a higher level than would otherwise be necessary.

In "A Fluctuating Exchange and the Remedy"* in which these proposals were first mooted—though in most imperfect form owing to the financial chaos then prevailing—50 per cent. was suggested. Now, under more settled conditions, a lower percentage may well be deemed efficient. Whatever percentage may be finally fixed upon, the one essential must be identity in every detail of its provision. An international credit can only function stably on an uniform guarantee, furnished *pari passu*, by equal instalments and by the same method, and *pro rata* at the same cost.

One other point may well be mentioned. If the Credit be inaugurated during the present depression of international trade, it is possible that demands for the Credit, based uniformly on a percentage of the last 3 years, would understate rather than overstate normal requirements. The advent of a stable and equitable medium of exchange, based solely on commodity value, should itself promote not only a revival but a general expansion of production and trade, and the more so, if, as will be shown hereafter, the medium be rendered wholly immune from the influence and machinations of finance. If, then, the guarantee be initially fixed at fifty per cent., a general demand for increased grants of credit—testifying that the circulation was winning confidence by fulfilment of its purpose—could be met by gradual reduction of the percentage of the Guarantee Fund, thus

* Published by the author in January, 1922, at 68, Victoria Street, S.W.1. See Preface.

increasing the Credit grants uniformly to the amount covered by the new ratio.

In discussing these proposals in 1921 with Embassy officials and representatives of Trade Combines, and Chambers of Commerce, the question was often raised—"Where is the Guarantee Fund to be stored?" This was not at the time surprising considering the general distrust and confusion everywhere prevailing, but now that things, all too slowly, are assuming a more normal aspect, such a question seldom should or would be raised. It is inconceivable as has been said, that any National or Representative Bank would be less faithful in fulfilling its obligations to an International Trust than to a National customer, public or private, especially when they and their fellow Nationals are joint beneficiaries under the Trust. It is also inconceivable that International Trustees would be less vigilant and exacting in their supervision than other public Trustees. To avoid any misconception the selection is delegated to the Council of the League where all are represented.

The guarantee itself should be regarded not as an evidence of the stability of a Nation's credit, but of National good-faith in fulfilling the Board's requirements, and as the means of making the International Credit function uniformly.

Section 4. This section defines the twofold circulation of the Credit—privately, between National Treasuries only, and publicly, between individuals. This simply follows the present system of circulating Bank Credit, which circulates between individuals by drafts adjusted by the Bankers Clearing House, and privately by the transfer of credit from Bank to Bank.

There is a great difference, however, since the proposed system renders the actual Credit-medium inaccessible to all save National Authorities and, therefore, places it beyond the reach of financial manipulations to which gold, as a medium, so readily lends itself, and not even the Board itself nor the Representative Banks will have drawing powers on the funds which they control.

Prior to circulation a measure must exist for determining the amount of credit transferred, and, since the primary use is to measure commodity values, it is fitting that it should itself be based on and represent the ascertained value of a fixed measure of a commodity, expressed in weight of gold. This has been fully

dealt with in the previous chapter and need not be further laboured.

The closing words of the Section are merely a precaution should steps be taken in the direction contemplated by Section 6.

Section 5. See preceding chapter.

Section 6. This section not only regulates the parity of exchange but leaves it within the power of a National Government to make any change thought desirable in its National unit or currency. It stipulates, however, that if a change be made it shall have for one of its objects the simplification of the parity of the National unit to the Mundic so that fractions and decimals shall no longer be needed in expressing such parity. Whether this is desirable at the outset or should be postponed in any case till the Guarantee Fund is complete is an open question. The old proverb—*anent changing horses while fording a stream*—may well apply, but there can be no harm in providing for the contingency. It should, however, be remembered that it is purely a matter of convenience since no change in a domestic currency will influence the Mundic, nor need the reverse action produce result. It is possible, too, that books of tables for the adjustment of exchanges and other conveniences may already exist which would obviate the necessity for change to those concerned.

Section 7. The object of this Section is to ensure uniformity not only in the nature of the tax by which the Guarantee Fund is to be raised, but in the incidence of the tax and in the methods by which it is imposed. Thus the Fund from which all must indirectly benefit will indirectly be provided by all. There will be no need to differentiate the tax; for articles of necessity must be enjoyed proportionately by all, while articles of luxury will be within the reach of the wealthy alone.

It is imposed on commodities at the time of their transfer to another country because the function of currency is to assist that transfer, and it is levied on imports only, because the exports of one country are the imports of some other, and it is in connection with imports that the occasion for a representative medium alone arises. Thus the impost is placed where it is most fitting, and—save in the case of Nations availing themselves of the provision of Section 12—should be practically uniform in amount

since the amount to be guaranteed is regulated in all cases by the same proportion of the National imports.

If ' x ' represent the import of any Country and ' y ' the agreed number of times which the Credit will function annually, $\frac{x}{y}$ will represent the total need of Credit for commercial purposes. The grant, therefore, will in every case be $\frac{4x}{3y}$ and, as ' y ' is a constant, the only variation possible will be determined in each case by x . Thus, the grant varying with x , and the amount of tax to be raised depending on the grant, the tax can only vary in like proportion to the ratio which x in one case bears to x in another, *i.e.*, in proportion to imports. In other words the tax should be proportionately identical for all Nations, and a duty of like amount should suffice to raise the sum required by the Guarantee Fund in every case.

It goes without saying, that the sooner the Guarantee Fund is completed, the sooner will the special duty be repealed, and exchange be unrestricted. And yet the duty is not taxation in the general sense of the word, but rather the pledging of National Credit in visible form to secure a definite and permanent benefit for all Nationals. It is a permanent investment, for though the duty ceases, the benefits abide,

The number of instalments will depend on the time allowed for building up the Guarantee Fund, and this in turn on the percentage of the guarantee. For purposes of demonstration it is assumed that the percentage originally is fixed at fifty, and to avoid undue pressure upon any Nation fifteen years is allowed for completion. This means that in addition to the initial payment of ten per cent. on the allotment of a grant the balance forty per cent. plus the sum allowed for expenses, say 5 %, or forty-five per cent. in all, is to be paid in fifteen instalments of three per cent. on the amount of credit allotted; all allotments being payable annually and in advance. Of this three per cent., two and two-thirds per cent. are allocated to the Guarantee Fund and one-third of one per cent. to expenses. Thus, as the first payment is to include the first annual instalment, the Credit will commence to function on a ratio of $12\frac{2}{3}$ per cent., rising at the end of the first year to $15\frac{1}{3}$ per cent.—the minimum and maximum on which Bank Credit was wont to function in pre-War days for domestic and foreign circulation combined. At the end of 14 years from

inauguration the full fifty per cent. would be complete. The amount of duty necessitated by such an arrangement will be dealt with later. Should a gold ratio of thirty per cent. be deemed a sufficient guarantee the fifteen instalments could be reduced to ten, the initial payment still remaining at ten per cent., but each instalment being reduced to two and a half per cent.

Section 8. See on previous section. The instalments of gold would, of course, be paid in by weight, and the initial payments either furnished from existing stores, or, by a loan of the amount needed issued under the provisions of Section 12.

The sum allowed for expenses should be reasonable, sufficient for its purpose and equally apportioned.

The duties imposed on the Board as administrators would largely consist of book-keeping; and beyond the provision of housing, material and an adequate staff should entail no great outlay. The staff should be international like the Credit.

Section 9. The obligations imposed by this Section are those of an ordinary business contract, and will be required from all. It should be remembered that the Contract is solely between the Contracting Government and the International Board and, therefore, requires no guarantors and involves no other Nation. The Guarantee has in every case to be furnished by a National contribution to the International Gold Fund, and the only obligation imposed on any Government—and the same is imposed on all and should press equally on all—is to raise by a duty on imports a sum sufficient for this purpose. When it is remembered that fulfilment of this duty places within the reach of every Nation a credit circulating at a constant value, of twice or, it may be even of four times the amount subscribed in gold, Governments will have every inducement to 'see that they fail not.' The power to fulfil the obligation being already vested in the Government and capable of being constitutionally enforced, its imposition calls for no new powers and involves less hardship than the adoption of a gold medium for a National Currency. There must be no default if the penalties imposed by Section 13 are to be avoided. The probable amount of duty is discussed on page 132.

Section 10. The general axiom that currency functions five times yearly would appear to have little basis in fact, if we compare the enormous turnover of Great Britain with her actual issue of Currency Notes. It may be true, however, for that portion of the currency actually employed for daily exchange. Assuming this to be true, we are at once struck by the disparity between the total of Bank Credit and of National Currency restricted to domestic Exchange. If only one-fourth of the cheques dealt with at the Bankers' Clearing House represent domestic business, we have a total of £10,000,000,000 per annum, while, assuming that £300,000,000 Currency Notes and the unpledged £100,000,000 of Bank of England Notes*—many of which circulate abroad in lieu of gold—all circulate 5 times annually, they can provide for £2,000,000,000 only. The proportion would thus seem to be as twenty-five to one, save that allowance must be made for the influence of cheques and other instruments in restricting the ebb and flow of currency proper. It is safe, therefore, to assume that where the Credit instrument is confined to a single transaction, the more rapidly will it function, seeing that the clearance of the instrument makes the Credit again available in another direction. This does not, however, imply that an International Credit would function with equal rapidity in every country, though it should tend to do so seeing that the grant to each Nation bears the same proportion to its trade.

To tie up National Capital in providing a guarantee for Credit which cannot be used would be sheer waste. It will be well, therefore, to keep initial requirements low, and extend the grants as additional credit is asked for. This, if the demand be general, can be effected, as has been said, by reducing the percentage of the Guarantee Fund and by the issue of such additional Credit to all as the new percentage will cover; or, if individual, by granting an increase provided the applicant pay at once the full weight of guarantee already subscribed on the original issue or borrow the same through the International Board under the provisions of Section 12, adapted to meet the case.

In this connection it would seem advisable to forestall a question which has already been asked by people occupying

* £56,250,000 in Bank of England Notes is held on Currency Note account.

responsible positions in Trade and other organisations and may—and probably will be raised by others.

What would happen if a Nation 'A' required large quantities of a natural product of 'B' for a certain industry, but had nothing which 'B' required to offer in exchange? Would not this lead to the speedy absorption by 'B' of the Credit issued to 'A'? What then would 'A' do?

The question implies the non-recognition of two important factors in exchange—the interdependence of Nations, and the impossibility of one Nation retaining a monopoly for any length of time. It ignores too, the fact that, unless under the grip of finance, nations, like individuals, are free agents; in that grip, they are bond slaves.

The opening up of new countries is gradually abolishing the idea of a monopoly and demonstrating beyond dispute that however highly favoured a country may be in respect of natural gifts, there are other lands possessing one or more of those gifts waiting to be developed. The experience of recent years assures us that so-called monopolies are destined ultimately to be shattered by the discovery either of new sources of supply, of a reasonable substitute for the material or of improved methods of treatment or manufacture.

Most readers will have heard of the mythical baker, who lost a half-penny on every loaf he sold and made a huge fortune by reason of his increased trade.

It would be a difficult task in these latter days to find a whole nation willing to trade at a certain loss. Yet the objection named above pre-supposes such a condition, and ignores the facts that from the outset the Books of the International Board will deal with the Credit and record transfers thereof, on an International and not a National basis; and that once the Guarantee Fund is complete the need for differentiating the Notes issued to individual Treasuries will cease. Thus a persistently adverse balance with the country supplying the material of an industry, may be as persistently converted into a credit by larger returns from the country or countries requiring the finished product. An importer of raw material might with equal reason assert that a flourishing manufacturing firm must be on the verge of bankruptcy, since all his dealings with it were on the debit side.

To return to practical details :—Though the notes issued to each nation will bear distinguishing features—to facilitate the carrying out of the provisos in Article 13 of the Proposals—the Credit will be dealt with as an uniform whole at the International Currency Board, and no regard will be had to any distinctive features of the Bonds, unless a Nation should default in its payments, and suspension ensue.

It might be deemed part of the Board's duties, while the gold guarantee is in formation, to act as a Clearing House between the various Representative Banks for Bonds of various Nations. On completion of the Guarantee Fund, say in the fifteenth year, new bonds of uniform character might be issued and the temporary difficulty for ever abolished.

If the units of the body-politic would only think for themselves, instead of blindly accepting the dictates of convention or the policy of the loud-voiced man, how much misery, trouble and loss the world would be spared ! Electors should be trained to realise that the vote entails personal responsibility to the State, and not to party.

The state of a Nation's balance with the International Board may either be on the same footing as that of a private individual with his Banker—unknown to any but themselves, or, as would seem desirable, declared and published at regular intervals, like those of Central Banks. The more open and above-board the administration of the Credit, the more readily mutual confidence will be fostered and the comity of Nations be sustained, the more keen, too, will be each Nation to maintain a good presentment.

Section 11. From the fact that the first instalment is to coincide with that of the initial ten per cent., it follows from the wording of this section that the Guarantee Fund will be completed in one year less than the number of instalments. By this arrangement four advantages are secured. A clear 12 months is allowed for winding up all details connected with the inauguration of the Credit, and repayment of the final instalment of the Gold loan; the release of trade from all restrictions will be expedited; the collection of all instalments—other than the first which may be borrowed—will be placed wholly in the hands of the responsible Government, so that any default will be due to the

ineptitude of itself and its officials; and last, but most important, the Guarantee on which the Credit is to function will *ab initio* be based on a percentage already proved efficient.

The conditions imposed on all participants are simple—to levy a sufficient duty on imports to cover all liabilities to the Board, and to hand over the agreed statutory weight in Gold for each Mundic or international unit due. There will be no guarantors required, no agents for flotation—each exacting his special *peculium* for service unneeded—but every participant will have a world credit apportioned to his need—constant in value, stable in every mart, and the poorest will pay no more than the richest and most powerful Nations under the sun. The one requirement will be—a simple contract between a participating Nation and the Board, the contents of which will be common knowledge the world over, because—“Everybody’s doing it.”

The concluding words are merely precautionary. It will be open to the Governments of gold-producing countries to establish a claim on output at an agreed price, and non-producing countries can enter into a contract either directly or through the Board, which would render nugatory any combination to raise the price of the metal.

Payment for this Gold could be made, if required, by means of specified securities to be deposited with their Treasury Agents by the licensed Bankers as payment for the control of Credit assured to them on their clients’ behalf. These, in the event of a corner in the selected securities could be borrowed, the local Banks being indemnified in National Credit or Currency from the proceeds of the special duty on imports, until a renewed deposit of the specified securities could be obtained at ordinary rates.

Section 12. Apart from those inaugurating the Credit as a sound and invariable medium of Exchange, this is the most important section in the new scheme. It enables every Nation to participate in the benefit of the Credit on terms otherwise impossible for the beneficiary, without the smallest risk to those who temporarily supply the means. The method usually adopted—and well exemplified in the matter of the Austrian Loan (1922)—is to furnish loans of Credit on such terms and under such conditions as must prove an additional handicap to

Nations—already suffering from productive or financial disabilities—in the keen competition of International trade, since the settlement of every National debt must ultimately fall on production. It is very much the same as imposing extra weight to be carried by a three-legged horse for the Derby. The latter might possibly be justified as an attempt to keep him out of the field, and remove a possible obstruction to more favoured competitors. But, in dealing with Nations, not even thus much of excuse is possible. The action is suicidal, since every producer is a prospective customer. To assist a Nation in reconstructing its productive activities is to aid in the settlement of its debts, and—as productive effort must find an outlet in Exchange—to introduce a new customer into the world's markets. To impose a heavy tax for so doing is to impair his power to repay.

Section 13. In establishing an International Credit by an uniform contribution of National Credit, power is given to every Nation to apply for such Credit as it needs, on equal terms with all others. Apart from the initial payments required from all alike, subsequent payments are entirely under the control of the National Executive. The object of this Section is to enable those who need it to obtain the initial payments on loan from the Board upon fair, not to say easy, terms, only rendered possible by the consideration, that those who lend direct to the Board incur no possible risk. This will involve the hypothecation of a further duty on imports to cover the amount advanced by the Board with interest, by means of instalments numbering one less than those required for the Guarantee Fund. The object of this last arrangement is to render coterminous all obligations incurred by the inauguration and completion of the Credit. If the amount of Interest payable on the gold Loan be $3\frac{1}{2}\%$ or $3\frac{3}{4}\%$, the rate charged by the International Board should in no case exceed four per cent.— 4% —for the reasons named above. To discharge a loan of 4% by 14 equal instalments would need a sum of £9 9s. 4d. or $9\frac{7}{15}\%$ per annum of the amount borrowed. The duty which this would entail on each borrower will be shown later.*

*See p. 132.

The difference—one half or one fourth of one per cent.—between the interest to be paid by the Board and that payable by borrowers from the Board, should cover the Board's expenses in connection with the transaction.

Section 14. The provisions of this Section are designed for the protection of all participants in the Credit Scheme, and also of the Board as borrowers and their creditors who furnish the Gold Loan. It will be patent that the proceeds of the Gold Loan will never leave the custody of the Board. On receipt the Board will issue securities with coupons attached representing the yearly instalments in number and value. The gold will be distributed among such central Depositories as the Board may direct, and there will remain; the coupons being encashed from the gold paid in by borrowers from the Loan Fund. So long as these repayments are punctually met, the security holders will be paid thereout; but should permanent default ensue, the Credit being cancelled, there will no longer be any lien upon the gold provided by the Loan, and it will be available for the repayment of any balance of principal and interest outstanding.

From this it will be clearly seen that, so long as the Board's debtors on Loan account fulfil their obligations, the security holders receive their annual quota, while, in the event of default, the original gold is available for return—the risk to the investor is practically *nil*. It may be deemed advisable, when issuing the Gold Loan, to take power to suspend repayment of any sum due to investors for a period not exceeding one year, to furnish to the defaulter such opportunity as may be thought fitting for reopening the Credit on payment of all arrears, with or without a fine as the circumstances demand.

Section 15. This section needs little comment. It restricts the circulation of National currencies to their own borders, and thus restores to each Government the power to maintain its value relative to commodities both at home, where it is legal tender, and abroad, where it is not. To ensure this the latter clause is essential. So long as the instrument of Exchange can be warped to suit the purposes of finance, and money converted into gambling 'chips,' so long will production and exchange be absolutely dominated by finance. If money value and not commodity value is to regulate exchange, and money value is to vary with

the financial policy of the hour, exchange on stable and equitable terms must be impossible.

It should be noted that this involves no change in the system now employed by finance, other than the adoption of the International unit of value, but makes the system of commercial exchange coincide therewith, though under State control. In each case the credit is to circulate by draft backed by a Gold Guarantee, but in each case the onus of providing the gold backing is placed upon the Authority of Issue.

Section 16. This and the two following Sections are here introduced to enable readers to follow the working of the proposals. They need no comment.

CHAPTER IX

THE MODE OF WORKING

“ The business of life is easy or hard, according to the skill or lack of skill displayed in production and distribution. It has been thought that business exists for profit. That is wrong. Business exists for service.”

HENRY FORD, *My Life and Work*.

BEFORE proceeding to discuss the working of the proposals, it appears advisable to draw renewed attention to the fact that the introduction of an International Credit and unit of value will not involve change in any National unit or currency. The sovereign, shilling, franc, dollar, yen and leu may remain as now, and by the majority of people the changes in the International monetary system will pass unnoticed, unless they are directly engaged in banking or foreign trade, or travel much abroad. The change will only affect the average citizen through the benefits which a stable exchange must have on production and employment, and in its tendency to steady the prices of imported goods. Directly, he will not be interested in the matter, but indirectly, every citizen is most vitally concerned. As possessed of the franchise, every voter is directly responsible for the election of fitting representatives to the House of Commons, and it is to these as representing the body politic that the administration and safeguarding of National property—which includes their own—is entrusted. This trust includes the provision of a fair and equitable medium of exchange, which will not only enable the poorest to dispose of his labour for such form of currency as will ensure provision for the needs of himself and his family, but will also assist the exchange of that which his labour produces, whether the market be at home or abroad.

The form in which wages are paid to him—whether in paper, gold or silver—troubles him not at all. To him they represent the necessities and some of the enjoyments of life, and his one

concern, if he has any, is—How much can I afford to spend on each of these? and, if thrifty—What shall I have left to put by? Assured on these points he is satisfied, and thus tacitly acquiesces in the truths, which have here been so persistently urged, that the material of a currency is of little consequence, since its real value depends on the commodities it represents, and its constancy on the statute of legal tender. To him, money is but the means to secure commodities, and this view is shared by all those whose use of money tallies with its design.

But there is the other side to consider. The worker is not only concerned with the return for his labour, he is directly and intimately interested in the disposal of those things which his labour produces, and on which the constancy and regularity of his work depends. Employment depends upon production, and production in turn upon exchange, for all productive effort is labour lost or ill-bestowed unless the finished products find a ready sale. And just as at home, a currency of constant value acting as legal tender for its value in commodities is essential to the free exchange of labour for the necessities and enjoyments of life, so in foreign markets, nothing can more readily and efficiently promote the international exchange of products, than a medium of constant value, issued by Constitutional Authority, and commanding its face value in every market of the world. To ensure this is to the interest and should be the endeavour of every voter in the country. Anything that tends to ensure its introduction should be welcomed, while everything which now hampers or hinders free exchange should not only be condemned, but every effort made for its removal. Nothing can do more to stimulate a revival in production than a ready and fair exchange by means of a constant medium; nothing can interpose a more serious hindrance to commerce, and consequently to production and employment, than instability in the medium employed for exchange.

Let a workman picture to himself the effect on his own purchases, if the £1 currency note would command 20s. value one week, 15s. the next, 12s. 6d. the next, and 17s. the next. How could he possibly plan his weekly budget to secure an even supply of the necessities and comforts he desires, and has earned by his toil? Mark this! His employer would be in no special way to

blame. He and all others would be in the like case, but one and all would be responsible in equal measure for tolerating the faulty medium, and not demanding from the governing brain one more constant and satisfactory.

But the variations in values which result from the lack of a constant medium for the exchange of goods with foreign countries are far wider than those named. To-day, January 12, 1926, the French trader has to provide 5 units for each unit of normal exchange, a Belgian $4\frac{1}{4}$, an Italian 4, a Turk 8, and a Roumanian $40\frac{1}{2}$.

All this confusion arises from the fact that there is no International Currency, and consequently no independent international unit of value, the latter, for exchange purposes, being supplied by the British unit—the sovereign. The confusion is bad enough when the sovereign itself is stable, but when the sovereign is at a discount with the units of one or more other nations, International Exchange becomes chaotic, and complications arising in any country are bound to be reflected in others.

Nor is this all. The work entailed by the present system is many times greater than need be, and the hindrance imposed upon commerce is far more serious than is generally realised. The aim of this book is not only to introduce a stable medium of exchange without disturbing National currencies, but also to simplify the mode of operation.

Some indication of the complexities of the present system may be gathered from a perusal of the paragraph headings of any text-book on Foreign Exchange, and the means by which it is effected. In lieu of a fixed parity of Exchange, one finds that the Exchange parity varies with the country, that no less than four denominations or varieties are specified—Long Exchange, Short Exchange, Telegraphic Exchange, and an exotic variety known to the initiated as ‘Tel Quel,’ the origin of which term seems shrouded in mystery. Some would derive it from the Latin ‘tale quale,’ which may imply that it is as good as another where all express the same thing with a difference. The doubts as to origin may arise from a difference in MS. readings. If so, one may remark that it is highly reminiscent of ‘tekel’ found in the handwriting on the wall disclosed to Ahasuerus, and that the

true signification may imply—"Thou hast been weighed in the balance and found wanting." The suggestion has at least this much to support it, that it accurately describes them all. When we come to the media by which expression is given to these varieties of exchange, we find them different in form, but strangely alike in constitution; while the methods of calculating the present value of those due at future dates are as variable as the weather, and the results as uncertain.

By contrast to the complex system which such a perusal will disclose, the simplicity of the method here proposed is intensified.

A merchant in London having to pay an account in Milan, say, for 25,225 lire will, if the suggested "unit" be adopted, know that the fixed exchange for this sum is Mc.1,000* which is also the equivalent of £1,000 sterling.

He will, therefore, apply to his Bank for a draft on the British Representative Bank for Mc.1,000, and pay for it either in Currency Notes—adding thereto the scheduled charge for a draft of this amount—or by a cheque drawn on current account. If his Bank be not licensed to issue these, it will have made with one or other of the licensed Banks such arrangements for issue as the Treasury authorities shall sanction.

The draft on International Credit will be sent either direct to the creditor, or through a banker—if so arranged—to be exchanged for a full set of documents covering the cost and freight of the goods. In due course the cheque will be passed by the vendor to his Bank and the value *at once* placed to his credit in local currency. The draft being issued by Constitutional authority delegated to the Board by the Government of each participating nation, will carry its full face value at parity equivalent in every market. The paying Bank will erase the endorsement only—thereby withdrawing the cheque from circulation—and will leave the signature to be cancelled by the Representative Bank as evidence that they had given credit to the payee Bank and retired the draft. There will be no need to wait for reference to the Representative Bank before withdrawal, the draft being a receipt for money paid in full on Inter-

* Mc—Mundics.

national Credit Account by the payee named in the draft and endorsed by him in favour of his creditor.

From first to last the cash value of the draft will be invariable and indisputable, and, no matter whither it be sent, it will bear a monetary credit in native currency at the normal rate of exchange. There will be no crevice through which doubt or hesitancy can enter into the transaction.

The clearance of the draft, attested by erasing with a date stamp the name of the '*endosse*,' withdraws it from circulation, such an instrument being no longer needed when once the goods which constitute the real basis of the Credit have passed into the control of the buyer. The cancellation of the drawer's signature by the Representative Bank attests the due disposal of the Credit in accordance with instructions.* The restriction of each draft to a particular transaction, and its transfer from one or other of the two parties or agents acting for them, will preclude even the possibility of interim dealings in the credit media; and, these being the only public form of circulation, the unit constant and the parity fixed, there will be neither scope nor opportunity for interference by financiers, or even by individual Governments.

Under the present system the current parity is largely determined by conditions appertaining to money as a commodity, and by movements engineered by financiers or other middlemen interested in trade movements, speculative or otherwise. From these, one and all, the new commercial medium will be immune. The draft, being payable on presentation, representing unquestionable and inalienable currency-value, issued for a special transaction duly named thereon and completed by its transfer, will be available for no other, and its acceptance at the Bank of payment will retire and annul it.

It may be argued that such a system would preclude any and all credit accommodation from the vendor to the buyer. It is meant to do so. The credit being based on commodity value, it is but right and just that the equivalent in legal tender indigenous to the country of origin should pass simultaneously with the transfer of the assets. Assured of receiving these,

* This assumes that it is found necessary to follow existing bank methods. For an alternative method, offering all the facilities of State Insurance, see p. 143.

the buyer should have no difficulty in obtaining local accommodation till the goods are sold.

The only extension of credit which could be asked for with any show of reason would be for such time as would permit of the arrival of the goods at the port specified simultaneously with the presentation of the cheque. The need for this, however, is wholly obviated by the consideration that the draft, having been paid for at the time of issue, and its transfer being subject to documents granting full control of the goods, it can make no possible difference to the buyer when the draft is cashed.

For convenience and simplicity, the insurance of goods should always be effected by the buyer in his own country. Every exporter is familiar with the delay and difficulty entailed in securing an equitable adjustment of a claim to the actual loss. There are even cases where the difficulty is enhanced by legal enactments, which permit the claimant to apply to the Courts for a committee of assessors to inspect and assess the claim, and such appointment overrides any proviso by underwriters to the effect that a claim must be attested by their resident agent. The committee once appointed hold themselves responsible to the Court alone, and, even if they notify the accredited agent of the time of inspection, it is as a matter of courtesy and not of compulsion, and little or no heed is given to any views he may express. Once the committee has passed its award to the Court, the importer is held to have justified his claim to the amount stated therein, and is at liberty to deal with the goods as he pleases. Weeks may elapse before the decision of the Court is promulgated, and in the meantime the goods are sold and scattered far and wide precluding all possibility of a re-assessment of the damage.

All these difficulties could be avoided by insurance in the country of import, where underwriters and importer could each appoint a valuer to inspect the goods on arrival and assess damages and, failing agreement by these, at once resort to arbitration. This need entail no restriction on any Insurance Agency, but should rather lead to amalgamation of companies of different nationalities working over an extensive area, or to national corporations acting in co-operation with foreign firms on mutual terms. Anything which tends to promote the amity of nations,

and reduces occasions for friction and legal contention, is all to the good in commerce as in every other branch of social life, and in this case any dissension would be limited to co-nationals, and legal contention, if any resulted, would be confined to Local Courts of Justice. For these reasons it is suggested that insurance should always be effected by the importer. Further protection could be given to all concerned—importer, exporter, and underwriter—by a certificate from an authorised inspector in the country of origin, stating that the goods were of the nature and quality specified in the account; and another from a master cooper at the port of lading as to the efficiency of the packing—both to be included under the term “a complete set of documents.”* Cash against documents at time of shipment and insurance by the buyer in his own country should be the universal rule, and the monetary equivalent should pass to the vendor in his native currency simultaneously with the sailing of the vessel, leaving the goods to furnish a source of credit in the country of the importer, who, by transfer of the documents, obtains full control. Simplicity in operation should be the principle underlying all commercial machinery.

It is most important that, so far as human intelligence can devise, the conditions of exchange should present a fair field without friction or favour, if full scope is to be given to the development of the highest skill and intelligence in production. The higher the standard called for, the greater will be the development of the worker, and, provided the worker gives a fair share to those dependent on him, the higher will be the standard of national life. With a higher conception of life and its obligations, a saner view of the means to be employed, and a firm determination to achieve the best—which keen competition cannot fail to evoke—labour should find ample scope for its activities in promoting uniform conditions internationally for the employment of human energy and for the betterment of human life. If she is to retain her supremacy in the world of production, Great Britain must learn from the vital economy of the physical

* Since writing the above, a letter has appeared in *The Times* of January 13th, 1920, under the heading—“Goods of guaranteed quality,” and signed “P. J. H. Unna,” advocating a quality guarantee by markets. This might well be adopted for goods exported on sale or commission, but for an actual sale, something more definite and explicit seems desirable.

frame, that it is not by swallowing "soothing syrups" and "sops to Cerberus" in the shape of preferential and protective tariffs, but by promoting the highest development of every unit of every organ, and the mutual encouragement and quickening of every part of the complex whole that a way out is to be found. In the physical body individuality in structure is combined with harmony in action, with ultimate benefit to the whole.

If England, with her long start in the sphere of production, her wealth and imperial resources cannot hold her own in competition with other nations less blessed, then she deserves to lose it. The endeavour to hide our own incompetence and to shelter our own ineptitude behind protecting tariffs puts us to shame. At the present stage of productive development a protective tariff can have but one sequel, to sacrifice the attainment of a higher standard in production to cheapness in the product, and to apologise for the inferior article on the score of unfair competition.

Of this, however, we may rest assured, much of the present stagnation in trade is due to the want of a constant medium of exchange. It stands to reason that when the exchange parities, say, with France, are in some cases at a premium and in others at a discount, she will endeavour to increase her trade with the former at the expense of the latter, and will find an auxiliary in the handicap afforded by the exchange.

So long as she could sell her paper marks at speculative prices for foreign credit, Germany could compensate herself for prospective loss by an immediate increase of foreign trade facilities, but as soon as State Loans had been repaid, and domestic mortgages and other liabilities liquidated by the depreciated currency, she at once set her house in order, knowing that for the terms of redeeming loans on currency she was legally responsible to Nationals alone.

The present proposals would prevent the results of any such abuses and vagaries from spreading beyond the borders, and no well organised community would tolerate the inflation of the currency solely for the reduction of National liabilities.

But the working of the new system is not confined to the circulation of the Credit alone. We have to consider the effect

of the duty and obligations imposed upon the Nations by its introduction and the provision of the Gold Guarantee Fund. The subject has been in part dealt with in the earlier chapters, but many will be looking for more detailed information as to the demand which the Guarantee Fund will make on the world's currency gold, and the burden it will impose upon Nationals by means of the special duty on imports. It should be clearly understood, that within a minute fraction the latter will be the same for all Nationals participating. The variation will be caused by the desirability of making each grant a round number, say, the nearest quarter of a million to the exact amount of the four-fifteenths fraction.

From the formula given on page 115 the grant to each Nation was to be $\frac{4}{3} \frac{x}{y}$ where x represents the total of National Imports, and y the number of times which the Credit is estimated to function annually. Keeping to the five times of the financial axiom, our formula $\frac{4}{3} \frac{x}{y}$ will represent four-fifteenths of the National imports. Each yearly instalment having to be raised by a percentage duty on imports, the latter will approximate $\frac{x}{100}$, allowance having necessarily to be made for an increase or decrease in the value of 'x' in consecutive years. The initial payments will then in every case equal $\frac{18}{100}$ of $\frac{4x}{15} = \frac{132x}{375}$, and the yearly instalment $\frac{3}{100}$ of $\frac{4x}{15}$, while the duty, then, will approximate $\frac{12x}{1500} \div \frac{x}{100} = \frac{4}{5}$ of one per cent—the equivalent in British currency of 16 shillings per £100.

Thus, by a gold payment of 13% of the Credit grant, measured by the International "Unit," and an *ad valorem* duty of approximately .8 per cent. on imports for 14 years, every nation participating would acquire a circulating credit of constant value equal to its present commercial needs.

Take now the case of a Nation which finds it expedient to borrow, with the consent of the Currency Board, the whole of its initial payments from the Gold Loan Fund. The amount to be borrowed is $\frac{18}{100} \times \frac{4x}{15} = \frac{52x}{1500}$, and this, also, has to be raised by an additional percentage tax on x , sufficient to produce annually for 14 years £9 9s. 4d., or $9 \frac{7}{15}$ % of the amount borrowed. This gives the formula for such cases a $\frac{142}{1500}$ of $\frac{52x}{1500} \div \frac{x}{100}$ or $\frac{142}{1500} \times \frac{52x}{1500} \times \frac{100}{x} = \frac{142 \times 52}{1500 \times 15} = \frac{7384}{22500} = .328$ per cent.

Adding this to the .8 per cent. required for the annual subvention to the Guarantee Fund, we have a total duty of 1.128 per cent.—say, $1\frac{1}{4}\%$, the proceeds of which would suffice in the 14 years not only to meet the annual subvention to the Guarantee Fund, but also to repay a loan covering the initial payment to that Fund with interest at 4%, together with the expense incurred both by the Currency Board in the issue and administration of the Credit, and by National Treasuries in the collection of the duty and the purchase of gold.

The slight modification of the duty necessitated by fixing the grant at the nearest quarter of a million, could not in any case require more than $1\frac{1}{4}\%$ on £125,000 or £1,550.

It would be well, perhaps, to make this quite clear by one or two illustrations based on actual returns.

In *Whitakers' Almanack* for 1923, under the heading "The Balance of Trade," a list is given of the Exports and Imports of the leading nations in commerce for the year 1921. The import returns for the United States, France, the United Kingdom and Japan, and those of Hungary, stated on p. 793 of the *Almanack*, are given below, and the four-fifteenths of imports with the actual grant and other results are worked out by the formulæ given above.

United States of America.		£
Total imports	£522,714,000 : $\frac{4}{15}$ of same	139,390,400
Actual Grant of Credit		139,500,000
Initial payments 13% of grant		18,135,000
Annual instalment 3% of grant		4,185,000
Duty required to raise the instalment		.8006 per cent.
Say, 81 cents per \$100.		

France.		£
Total Imports	£941,939,000 : $\frac{4}{15}$ of same	251,183,700
Actual Grant of Credit		251,250,000
Initial payments 13% of grant		32,662,500
Annual instalment 3% of grant		7,537,500
Duty required to raise the instalment		.8002 per cent.
Say, 81 cents per 100 francs.		

United Kingdom.

	£
Total Imports £979,635,000 : $\frac{4}{15}$ of same	261,236,000
Actual Grant of Credit	261,250,000
Initial payment 13% of grant	33,962,500
Annual instalment 3% of grant... ..	7,837,500
Duty required to raise the instalment ...	.80004 per cent.
Say, 16s. 6d. per £100.	

Japan.

	£
Total Imports £147,390,000 : $\frac{4}{15}$ of same	39,304,000
Actual Grant of Credit	39,250,000
Initial payment 13% of grant	5,102,500
Annual instalment 3% of grant	1,179,500
Duty required to raise the instalment ...	.8025 per cent.
Say, 81 sen per 100 yen.	

Hungary.

	£
Total Imports £80,500,000 : $\frac{4}{15}$ of same ...	21,465,000
Actual Grant of Credit	21,500,000
Initial payment 13% of grant	2,795,000
Annual instalment 3% of grant	645,000
Duty required to raise the instalment ...	.801 per cent.

Or 81 gara per 100 pengos.

If the initial payments be borrowed at 4% repayable in 14 years :

Additional annual instalment $9\frac{7}{15}$ of...	£2,795,000
Say	264,600

Duty required to raise this additional instalment, say 328 per cent.

and adding the .801 per cent. we obtain 1.13 per cent. or, say, 120 gara per 100 pengos.

These illustrations should suffice to show how infinitesimal will be the cost of the measure compared with the immense saving in time and labour, and the many other advantages which must result from the introduction of an International Credit currency with an independent and constant "Unit."

There remains to consider the demand which a 50% Gold Guarantee would make upon the world's currency gold. On

p. 51^f an estimate was given which put the world's stores of gold devoted to currency purposes at 480,000,000 ounces. The list in *Whitaker's Almanack* (1923) referred to above gives a total for the World's Import trade of £5,140,507,448. This list omits Germany—owing to the difficulty of estimating sterling equivalents for the ever-changing paper mark—and also all nations with a volume of trade below £12,000,000. Making due allowance for these omissions, the total of the World's imports may safely be put at £5,250,000,000. Four-fifteenths of this total or Mundics 1,400,000,000 should represent the amount of International Credit required by present commercial needs. If then, it be thought desirable that this credit should function on a 50 per cent. Gold guarantee, it will be necessary to provide a weight of gold equivalent to the fine gold content of £700,000,000 sterling. As 17 sovereigns contain 4 ounces of fine gold, this will represent less than 165,000,000 ounces Troy—roughly one-third of the World's Currency Gold—leaving 315,000,000 ounces for National requirements. The transfer of this gold to the International Credit Board will imply nothing more than the delegation to Trustees by National Parliaments of certain of their constitutional powers, with a view to ensure the circulation of National credits as legal tender beyond national bounds.

It may here be asked—Where in all this is any arrangement made for those countries whose currencies are based on silver? At present the parity of exchange is determined by the day's price of silver expressed in terms of gold, due allowance being made for any admixture of alloy. The price of silver being much more variable than that of gold, the exchange between gold and silver-using countries changes much more frequently and widely than between those which nominally or actually adopt a gold standard. Perhaps no class has suffered more from this cause than British regiments serving in India.

The matter of adjustment under these proposals will present no difficulty.

A reference to the article—"Money of Foreign Nations,"* published annually in *Whitaker's Almanack*, will disclose in many

* This article ceased to be published in the issue of 1927.

instances two forms of monetary unit for the same country—the 'nominal,' which regulates the exchange parity, and the 'actual,' by which domestic values are measured. Further search will disclose that when the actual unit is of low value, it is rarely, if ever, minted, save in multiple denominations, so that the gold parity is established by deduction from the statutory definition. Thus France has a nominal gold franc as the unit of exchange, the place of which in National Currency is taken by a nickel token, nominally the equivalent of 9.513d. Greece, Italy and Spain all have a nominal gold unit of the same parity value as the franc, but circulating for domestic purposes by paper or a debased token. The countries of South and Central America—Argentina, Bolivia, Brazil, Chile, Columbia, Mexico, Nicaragua, Salvador and Uruguay, all have a nominal gold unit, yet the exchange parity is for the most part expressed in terms of the silver dollar or other unit, while the national currency circulates in paper representing either the gold unit or a fraction of the same, or by a silver coin.

It is apparent from these data that a National Currency needs not, of necessity, to tally with the nominal unit of the Nation which furnishes the basis of exchange parity. This being so, why cannot all silver and paper-using countries adhere for International purposes to their nominal gold unit if they have one, or adopt a nominal gold unit if they have not, and retain their actual unit as the domestic unit of value. It would simplify and bring into line the complicated systems now in vogue, and bring order out of chaos. Another alternative would be for all Nations to adopt the International Unit for exchange purposes, and retain their actual unit for National Currency. This would render the two currencies independent, and any change in the gold content of either would affect only bankers and foreign merchants. During the formation of the Guarantee Fund the International credit would be brought into indirect relation to each national currency, in which the duty on imports would be collected at its parity of exchange, but once the duty proceeds were converted into gold, and the Guarantee Fund completed, all connection would cease. Then the only reference will be to the 'nominal' Unit whether identical, or distinct from the 'actual' unit of the local currency.

In any case, merchants will think in terms of the International Unit, and neither they nor the bankers will trouble about the National parity, except when paying or receiving payment for a draft expressed in Mundics.

Immune from all outside influences, whether from governments, financiers, politicians or speculators, the Credit will function freely and equitably at a constant value, until the normal gold equivalent of 240 lbs. of wheat shall have varied to such an extent from unit weight as to render a variation of the "Unit" desirable, and then it would be made by the authority of the League of Nations after due consideration by its Associated Members. Such alteration would necessitate no alteration in the issue or apportionment of the Credit itself, but would be confined solely to the Guarantee Fund, increasing or decreasing the ratio of gold to credit inversely to the increase or decrease of the "Unit." The proportionate increase or decrease in the number of national units exchangeable for one International Unit would be identical the world over, and would, as before, be a matter of concern to merchants and bankers only.

It is suggested, therefore, that silver countries should retain or adopt a "Nominal" gold unit for International exchange and adhere to their actual unit for the regulation of domestic currency, themselves defining the ratio of value between the one and the other. The International Currency Board would confine itself to the Nominal, and thus avoid any and all domestic complications which might arise.

It were well to think of some of the numerous benefits such a system would secure. The following list may be extended at will.

1. First and foremost it should make for the World's peace, and the credit drafts would be veritable bonds of peace and equity. Nothing tends more to disturb the comity of nations than commercial and financial friction. Curtail the opportunity for friction by removing every efficient cause, and you will remove therewith much of the distrust which now erects barriers and benumbs all combined effort for the world's advancement in peace and mutual helpfulness.
2. It will give security of contract. These, if made on the basis of International Credit measured by the

International Unit will be invariable or will vary in like measure for each contracting party.

3. It will abolish all uncertainty—

(a) as to the terms of payment, and—if the “one deal one draft” policy be adopted,

(b) as to the credit of the second party to the exchange.

If the latter, with commercial assets to pledge, cannot command local credit for say, 70 per cent. of their value, he may safely be ranked as an undesirable.

4. It will render commerce immune from financial interference. The interests of finance and commerce are rarely identical. They are engaged in distinct occupations dealing, the one with currency—the medium of exchange, the other with capital—the material of usury. As a licensed agent of the National Treasury in dealing with International Credit, the Banker will have solely in mind the interests of his customers—his own remuneration having already been fixed by the State. He will be far more ready to lend temporary assistance to producers when he knows that payment will be assured concurrently with the goods passing from his control, and that when made it will be in National Currency or by Credit therefor, the balance of which he will retain on current account.

5. It will relieve business men in a large measure from financial cares. Much of the wear and tear of business is caused by the uncertainty of securing credit just as and when required, and by the possibility of financial loss due to a variable medium of exchange, and the necessity to vary prices in order to meet the same. After surmounting the anxieties and difficulties of production, entailed by speculation in raw material—largely induced by a variable medium of exchange—labour troubles, costs of power and difficulties of transport, why should he be harassed by wholly unnecessary complications in the monetary medium of exchange? It is no answer to say that under normal

conditions the variation is limited in its range. *We are dealing with the fact that variation is possible where constancy is essential.* But for the variations in exchange, and the grudging and onerous conditions under which assistance has been given to foreign customers, both which causes spring from the confusion of commerce with finance, the existing collapse in commerce and production would have been greatly modified. Confine the use of currency to commerce where it is designed to function, leave finance to function on Bank Credit, as it now does—itsself providing the Gold Guarantee—and you at once rescue production and exchange from the grip of finance, and set them free to develop as the needs of the world demand.

6. It will re-establish National Control of currency both at home and abroad. At home by native officials, and abroad through Trustees acting on lines and under conditions previously assented to by the Parliaments of those Nations who constitute the League.
7. It ensures against forgery. The draft, issuing only for a fixed purpose and being negotiable by the Representative Banks or a licensed agent through the duplicate acknowledgment handed to the payee by his Representative Bank, is sent at once to the Head Office of the International Credit Bank and there remains, until finally cleared by notice of payment to the *endosse*. The payee would hand the draft back to the licensed Banker against an acknowledgment in duplicate. The premier of these duplicates is sent by the payee Representative Bank of the *endosse*, who, on receipt, instructs the *endosse* that it holds credit for certain monies, payable against delivery of a complete set of documents or x days afterwards as the draft directs. Should the matter be urgent, the payee will hand the premier acknowledgment to his Banker to be dealt with in manner suggested on page 145f.
8. It does away with all need for export credits with their complex working, by abolishing credit in foreign commercial dealings, and supplying a constant Inter-

national medium available to all Governments in fixed proportion to their ascertained commercial needs.

The *Times* of July 13th, 1926 contained a summary of the arrangements made by Government for Insurance of Export Credits. There is no need to discuss the complete provisions of the scheme, but the principle on which it is based should be carefully examined by all business men, and by all who are interested in production and exchange.

The summary opens with this statement—"While every application will be examined by an advisory committee assurances are offered that absolute secrecy will be observed and that traders need have no fear of their affairs being disclosed to competitors. Not every application which is received will be approved, and premiums in approved cases will vary according to circumstances, but the Credit Insurance Committee were generally agreed that the export trade of the country would benefit from some additional means of assuring against bad debts, and the scheme seeks to provide reasonable facilities."

This simple statement damns the scheme in its entirety. Apart from the fact that it recalls the old French proverb—"Qui s'excuse s'accuse," one is led to ask—why is the State called on to make provision for the risks of a faulty system of trading, which, while necessary care in the selection of customers was exercised, were amply covered by such reasonable addition to prices as recompensed the average loss. Seeing that 'prevention is better than cure,' it surely were wiser to prevent the incurring of bad debts by eliminating the faults of the exchange system, than to intensify these faults by providing State insurance against increased risks resulting from want of business acumen, or the extension of that gambling spirit, which already plays too prominent a part in business routine.

If the officials of the Overseas Credit Department are convinced that the conduct of business is now of such a hazardous character that it needs State provision to cover risks too serious for Bank and Insurance Companies to undertake, it is open to them to proffer their assistance. Such an arrangement by a Government Department, however, should be open to all, and assistance rendered on the same terms for risks clearly defined, and not with preferential treatment apt to be influenced by personal predilec-

tion for this or that firm. A business man, methinks, would want something more definite in character and more explicit in its promise and cost of working before disclosing his own ineptitude, or the wild ventures that should alone require such assistance. With a stable medium of exchange and cash payments sufficiently elastic in working to meet the requirements of customers at a distance, there should be no demand of modern business which the modern system of Banking cannot satisfy without any possibility of loss either to the vendor of the goods or to themselves. The risk, which at present results from a variable medium, must be obviated by the introduction of a medium constant and sound. Then there will be no demand due to time or place which banking, with slight modification of its existing instruments and procedure, should fail to meet.

With the private ventures of corporations, sole or otherwise, Governments are not directly concerned. The provision of a stable medium of exchange is their prime duty and obligation as Trustees of the National Credit, and the more urgent by reason of its influence on employment and production. It is no part of a Government's duty to perpetuate the faults of a system—for which they are responsible—by providing insurance at the public expense for the evils which they beget. A law is not emended by indemnifying criminals against breach thereof, neither will the faults of a variable exchange be remedied by indemnifying traders against resultant ills. Two of these are inevitable—additional cost to the genuine trader and the encouragement of speculative trading.

The recognition of the truth—that all credit is based on an asset, and the logical deduction that a transfer of the asset should be co-incident with the transfer of the monetary equivalent effected by a constant credit medium, prevents all possibility of debt—good or bad. A bank will always finance, to as liberal a percentage as any authorised Government should undertake, a genuine deal, in which their principal possesses the first two of a Banker's four C's—Character and Capacity, and this being so, why should the State intervene? Has its interference hitherto been of such a character as to beget confidence in a new departure wholly unnecessary? Or is the Government out to get business at any and every risk by undertaking insurance at the public

expense? Government must surely recognise that the time for grandmotherly and class legislation has gone by, and they who make money their chief aim in business, and not service for the common weal, should be left to achieve their object by the exercise of common sense and the means which already exist. If Insurance Companies and Banks will not take the risk, neither should Government. If they are willing, what call is there for Government to intervene? It may be urged that Banks would not be justified in locking up their Credit for six or more months. Granted, but, if a Bank adopts extended Credit as a special part of its business and makes due provision for the risks, who can gainsay them? But extended credit should not be needed.

Credit—which is a synonym for the value inherent in commodities and denotes the currency equivalent of that value—legitimately should be transferable concurrently with the goods concerned. It is unreasonable to ask—much less to expect—a vendor to add the function and risks of a moneylender to those inseparable from the business of production or exchange. Neither producers nor traders are legalised moneylenders, bankers are; and in the present condition of banking there is no legitimate demand for credit which bankers are not able and willing to supply to an approved customer. The advice of any sound business man would be—If his own bankers do not approve him, let him alone. They are on the spot and have facilities for investigation which no foreign Committee of Enquiry can possess.

The new proposals of Insurance are designed especially to meet the needs of those countries where the custom obtains—originated and fostered in Germany by State aid to Banks for this special purpose—of giving prolonged credit in order that the goods may be wholly or in part distributed to factors and retailers over widely extended areas before payment is required. But surely it is wrong in principle to expect the producer or merchant to assist in confirming the lack of needful communication in a foreign country at the cost of his business or his own community. It were surely better to leave the ill effects of local indifference to exercise their influence on the introduction of developments and reforms. The merchant knows the local condition of transport before he places his orders, and should either be provided with ample capital to meet the requirements of his business, or be

able to command the assistance of local bankers in cases of temporary need. The new proposals would seem to place a premium on speculative trading, by making the community at large responsible for the losses incurred.

The provision of credit is a matter alien to production and exchange, and while it may be held to emphasise the local need for increased banking facilities, it does not warrant interference by a foreign State to confer financial advantages only possible under autocratic rule. The need for extended Credit should soon create a demand for additional Banking facilities *in loco*, and this, if not met, would have led to foreign Banks taking the initiative and their co-operation with those on the spot. In these days of co-operative banking the need could be readily supplied by such institutions as Barclay's Bank (Overseas) Ltd., or Westminster Foreign Bank, Ltd. The condition precedent must be a stable medium of exchange—an International Credit measured by an independent unit. There could, then, be no legitimate objection to the Government of the Country guaranteeing the Credit Bank against, say, 50 or 60 per cent. of any loss, with a view to induce a minimum charge for accommodation. In any case the new proposals are unsound in principle, and unfair in application. It is not playing the game to call on a player to expose his hand, while your own cards are hidden.

There is, however, a matter which, if prompt cash against documents is to be the rule—and it should be—justly calls for special consideration, owing to the distance between the port of shipment and the port of discharge, and consequent delay in the receipt of goods by the purchaser.

Firms doing business with such Countries as India, China, Japan, Australia and South America would, when quoting prices, be at a disadvantage with Countries more conveniently situated. This disadvantage can readily be annulled by a legitimate use of the International Credit here proposed.

The exchange media at present in use include both "bills" and "drafts," and the draft issued on the International Credit can be so worded as to serve either purpose by the simple process of post-dating.

For example, a draft worded thus—'x' days after date hereof and on receipt of a complete set of documents, covering

goods of the character and value named on the reverse, pay to the person and at the Bank named in the endorsement hereto duly signed by the payee.....in National currency at the fixed rate of exchange the sum of Mc. 2546.5 and debit the same to us.

For Bank Ltd. (Signed)
might serve every purpose, the opening words being erased and initialled where no period of grace was allowed. Possibly two separate forms of draft might be found more convenient, the one with and the other without the opening words.

In this connection it must be remembered that every Representative Bank would be a branch of the International Credit Board, and no question of comparative credit would be raised by the post-dating to wound official or national feelings. A draft drawn on any Representative Bank is drawn on the Credit Board, and the Bank issuing the same can be trusted to look after its own interests in the matter of payment therefor. The Representative Bank on which it is drawn will be acting conjointly with all other such Banks in the interest of the International Credit Board and no other. Thus a draft drawn on any Representative Bank and deposited with them to facilitate the fulfilment of a specific contract, should be recognised as a sound monetary security by any and all other Representative Banks, when called upon to co-operate in making payment for the goods. In an emergency there should be no need to transfer the draft from one country to another, it could be sent straight to the Head Office at Geneva, who, on advice of payment from the representative Bank concerned, would make the debit and credit entries needed and remit the draft to the Representative Bank on whom it is drawn, for return to the drawer, either direct or through the National Bankers' Clearing House. These establishments would be relieved of so much of their labour, that they might well take over from the Representative Banks the task of distributing the documents and the returned drafts to the Banks who drew them. Thus the Bank issuing the draft would have opportunity to establish any lien upon the goods before releasing the credit to their customer. In cases of deferred payment, the date of clearing the draft, attested by the date stamp of the

paying Bank upon the endorsement, should be the date for debiting the draft both to the Bank of issue and the original purchaser. Thus there would be no advance of cash by anyone before the time of payment at the date determined by the Shipping Conference—see below—though the issuing Bank would be entitled to some payment for the loan of their name, unless their customer preferred it to be a cash transaction.

Preliminary steps to any such arrangement must be—

1. The holding of an International Conference of those engaged in the transport of goods, to determine the time normally occupied between the leading ports of lading and discharge by mail and cargo boats respectively, the duration of voyage—say, 5, 10 or 15 days—which shall be deemed the maximum covered by immediate payment against documents, and the additions to be made—in units of say, 3 or 5 days or any part thereof—in the case of voyages occupying a longer period. These would be scheduled by the officials of the Credit Board, and the number of excess units would regulate the term of Credit to be covered when post-dating the draft.

2. That the licensed Clearing Banks should each bear a distinctive number, none of which should include a nought, and Banks or branches co-operating with them should also be numbered in the like manner. The insertion of a nought between the first and second numbers would then serve to distinguish the one from the other.

3. Every Importer, licensed or otherwise, should have a registered cable and wireless address which, together with the code number described in 2, must be registered with his banker and printed on all his stationery.

With these preliminaries effected it would be an easy matter, when required, to send a cable or wireless in code. In all cases the draft would be endorsed by the payee in favour of his customer and with the name of the local Bank with whom the customer has his business account. The class and description of goods should also be stated. This draft should be sent to the Representative Bank in return for an acknowledgment in duplicate, "We acknowledge the deposit with us of Draft No..... and hold ourselves responsible for the payment of Mc. 2546.5 at National parity as therein instructed." Signed for, etc., etc.

The draft after entry in the Books of the Representative Bank, could then be forwarded to the International Credit Board to be debited and credited in due course to the respective Representative Banks and accounted for in the balance sheet at each monthly settlement.

One acknowledgment from the Representative Bank would then be sent by the holder to the nearest licensed agent of the vendor's Representative Bank—known by the number on his stationery—who would notify the vendor's Bankers that he holds warrant for payment—immediate or otherwise—against the presentation to him of a complete set of documents,* and the matter would then go forward to completion.

If the matter were urgent, or the vendor from any cause needed assurance that payment was secure, the whole matter could be arranged by cable or wireless through the Representative Bank. For example, a cable could run :—

Milanbic.	Apicodoce	}	250412 Tinali.
	or apacodoce 20		

Mc. 2546.5 debit.

Signed with Code word.

This would be decoded to—

Milanbic	...	Milan, Bank of International Credit.
Apicodoce	...	Advise and pay immediately on receipt of a complete set of documents of even value.
or		
Apacodoce 20.	...	Advise and pay 20 days after receipt of a complete set of documents of even value.
25	...	Code number of licensed agents of Representative Bank as specified on Stationery.
0	...	Division mark.
412	...	Code number of local Banker.
Tinali	...	Registered name and address of payee.
Mc. 2546.5	...	Lire 64,235.4625.
Debit	...	We acknowledge liability for this amount.

Signed Code word.

Both credit and debtor can then sleep easily, the latter knowing that the whole matter is settled, and that he will not be debited

* See p. 129f.

with the amount by his Bankers until payment is actually made, and that within a few days of such payment a full set of documents carefully scrutinised, will be handed to him, and the goods which they control be landed at the docks.

There will be no need to maintain an 'Export Credits' or 'Bad Debts Insurance Department,' but the country which controls the goods will pay their value approximately on their arrival at port, and any accommodation required by the importer will be furnished by local Bankers—co-operating, if necessary with foreign financiers.

To ask traders to insure against Bad Debts with a Government Department is to invite them to rash and hazardous speculation at the public risk.

CHAPTER X

THE AUSTRIAN LOAN (1922).

" If the present faulty system is more profitable to a financier than a more perfect system would be, and if that financier values his few remaining years of profits more highly than he would value the honour of making a contribution to the life of the world by helping to erect a better system, then there is no way of preventing a clash of interests. . . . Why should finance fear ? The world will still be here. Men will do business with one another. . . . Nothing is going to depart save the knots and tangles. . . . Banks will no longer be the masters of industry, they will be the servants of industry. Business will control money instead of money controlling business."—HENRY FORD, *My Life and Work*.

THE issue of the Austrian Loan of 1922 was remarkable for two circumstances. The first—It was issued " Pursuant to a resolution of the League of Nations "; the second, it recognised the fact that the exchange value of a National Currency abroad was no true index to the Nation's Credit.

That the League should interest itself directly in International finance, though surprising, was undoubtedly a step in the right direction, seeing that it is the first International Body constitutionally established. The admission that the exchange value of its currency is no true index of a National Credit gives ground for hoping that a truer test of value may, under the League's auspices, be finally assured.

In *The Times* of July 11th, 1923, there appeared an article from a Geneva Correspondent on " The Aims and Objects of the League of Nations," which contained the following :—" The League exists to promote agreements not to impose settlements," and " The Austrian Scheme was ready nine months before the League was asked to take Austria in hand."

The former of these statements suggests the twofold query—If the League has no executive powers and acts by suggestion only,

what greater force do its resolutions possess than that of a public meeting? and—Whence did it derive the authority to appoint trustees or to enter into engagements to see that the terms of this Loan were duly met? Was the League in a position to give any assurance as to the future of a dismembered Austria bereft of her richest provinces and of her outlet to the sea?

The main point, however, is this. What powers have been conferred upon the League which authorise its *active* intervention in the issue of an International Loan? It is evident the League would not incur such a responsibility on its own initiative, therefore, enabling powers must exist. If, then, as the Geneva Correspondent tells us, "the League's object is to serve the world," cannot these same powers enable it to promote such modifications of the existing system of International Exchange, as will ensure the abolition of a variable medium with all its attendant ills? Why rest content to deal with the results of the evil piecemeal—as they affect individual nations, when by one comprehensive measure they can remove the source of the evil, quicken reconstruction and the revival of commerce, and mete out just and equal measure to all the world?

If the League's intervention is justified on behalf of one, surely it is more than justified if exercised for the benefit of all. Such intervention need involve, and should involve no interference with the governing or financial policy of any Nation, save where these threaten the world's peace or bar the free exchange of the world's productions. Nor need it call for, or occasion, the intervention of any other Nation between the beneficiary and the League.

The second point is the recognition of the truth herein urged that to base a Nation's credit on the foreign exchange value of its currency, designed for domestic use only, is irrational and wholly unsound. The intrinsic Credit of a Nation is the product of two factors—natural gifts and national character. The latter determines the readiness with which nationals adapt the former to their own uses, or render them mobile for purposes of exchange. It also begets the thrift to which national savings and their appropriate use are primarily due.

Under the existing system the exchange value of a currency is little influenced by consideration of these factors, but is

based simply on variations in the exchange medium, due to influences which have no concern with the purpose for which currency is designed. With a constant medium secured on a firm basis, these variations—impossible to the currency functioning in its legitimate sphere—could and should be rendered impossible. The fact that a National Currency can be so manipulated and affected by outside influences as to falsify its true value, and, by so doing, be made to hamper the free course of the world's industrial energy, is a most potent argument against its continued use for international purposes in its present form. That the retention of this faulty system should be loudly and persistently advocated when once its baneful effects have been realised, would be unthinkable, were it not daily in evidence.

The issue of the Austrian Loan recognises the falsity of the exchange as an index of National Credit by accepting as guarantors for some seven-tenths of the total amount three nations whose currencies even now, November 25th, 1925, stand at a very considerable discount. These are France, whose franc stands at 79½%, Italy whose lira is at a discount of 79.1%, and Czechoslovakia whose krone stands at a discount of no less than 85.3%. If these three countries are accepted as efficient guarantors for 69½% of the Austrian Loan, it must be that the League of Nations recognises that the Exchange is no true index of National Credit. It is but a step onward to the provision of a remedy, for the recognition of an evil should lead to a removal of the cause.

Had we to-day to seek a medium of exchange, would any independent committee select a medium which can be so affected by extraneous influences, and, as recent events prove, so manipulated by any combine—financial, commercial or speculative—as to defeat the very purpose for which it was designed, and reduce millions of the world's workers to idleness and dependence? It must, in justice to the League, be said that they were fettered in their action by existing conditions.

Despite the difficulty of reconciling the League's action in the matter of this Loan with the statements of the Geneva Correspondent, the issue of an International Loan under the direct supervision of the League marked a forward step in financial reconstruction. No great progress, however, will result from the League's recognition and control, unless the

terms and conditions imposed show less signs of financial domination. For these, the League, as Trustees for both parties—lenders and borrowers—cannot disclaim responsibility.

Direct interference in the financial concerns of an individual Nation is a grave error in policy for such a body as the League of Nations, and is little calculated to forward its *raison d'être*—the promotion and conservation of world peace. If the League decides, as a new departure in its activities, to promote a Loan by one or more Nations to another, the Council are bound in common justice to assure themselves on two points—that there is ample security for the lenders without involving other Nations as guarantors, and that the terms imposed on the borrowers—especially in view of present needs—are the most lenient possible consistent with the security offered. Only by so doing can it justify its claim to act as the friend of all concerned. If under existing conditions such assurance is impossible, it should be the aim of the League to inaugurate such conditions as will render financial equity possible of achievement by all, and on every occasion.

A true International Credit has here been devised with a view to benefit not one only, but every Nation, and capable of being issued in a manner and on terms conditioned to the present needs of industrial exchange. Such a Loan need involve, and should involve, no responsibility of any Nation to another, or on another's behalf, should permit of no intervention between the beneficiary and the authority of issue, and should embody conditions constituting an efficient guarantee for the due fulfilment of all obligations.

In the proposals already detailed the basis of issue to individual Nations, the initial and subsequent payments, the mode of raising such payments, the contribution to the Guarantee Fund are identical in all cases. The whole issue is based on an aggregation of National Credits, each pledged by National decree, and substantiated by a Gold Fund jointly contributed as an evidence of each Nation's good faith in the fulfilment of its obligations, while the administration is vested in an International Currency Board representing and acting for the League. Failing the due discharge of its obligations by any Nation, this Board has power first to suspend for a term and, finally, to cancel

the credit issued to the defaulting Nation. As the cancellation is to involve the forfeiture of all sums already paid thereon, the grant of credit carries its own guarantee for earnest endeavour, and its own penalty in the event of failure, because the avoidance of such failure is solely within the National control. There would be no need to implicate as guarantors other Nations, whose resources are already strained by efforts to readjust their own financial obligations.

The first essential of a National Currency is that it shall stand alone. It needs strong foundations but no buttresses for its support. The first requisite for an International Credit is stable independence. Both alike demand that they shall be exempt from outside interference, and be variable only by the constitutional authority vested with their issue and control.

Comment has already been made on "The Memorandum on Debts and Reparations" presented on June 3rd, 1919, by the delegates from the United States to their colleagues on the Peace Commission at Versailles. Section 6 of the Memorandum runs thus:—"6. It is further to be observed that what the world requires, and requires immediately, is a new basis of Credit."

There are at present no International assets which alone can furnish the basis for an International Credit, which is what is really needed, but the want can be readily supplied by a combination of National Credits contributed by all participants *pro rata* to the amount of Credit issued to each.

The source of existing troubles is to be found in the attempt to make National Currencies function beyond their sphere; and, as the stability of a National Currency depends on the statute of legal tender, there exists no means for ensuring stability in any medium employed abroad. Hence a circulating medium expressed in terms of a National Currency readily lends itself to financial manipulation, and forces upon the currency a function for which it is neither designed nor adapted. Any new basis of credit, therefore, if furnished by a combination of National Credits, which is the only basis possible, must have no direct connection with, nor be expressed in terms of, any National Currency, if connection with the domestic concerns of other Nations is to be avoided.

It is impossible to believe that any such interference was contemplated at the time of the League's inception. If so, it was a grave error of judgment; for, while it can achieve no purpose which could not as readily and efficiently be attained by other means, it introduces that germ of irritation which too often begets ill-feeling ending in open rupture. If such interference by the League was countenanced, one cannot wonder that the United States held—and still holds aloof. A direct agreement between a League of Nations and an individual Nation is an anomaly. An agreement between all Nations for definite action by the League as their joint Trustee is something totally different, even though the League be the primary influence and the most active agent in promoting it. To prepare a scheme of financial help, on terms by no means liberal, and to urge it on an individual Nation differs widely from the inauguration of a New System of financial exchange by means of a stable medium, the use of which is offered to all its members on identical terms. Such a system can be inaugurated, *if the will be there*, without other interference on the part of the League than to enforce due observance of terms previously agreed—such interference having been authorised by all parties to the agreement for their mutual protection.

It will demonstrate the advantage of the proposed scheme to compare the cost and yield to Austria of the Loan of 1922, and those of an issue of like amount in International Credit. The figures in the case of the Loan are put in the most favourable light compatible with the known facts. The terms of issue to the contracting Nations were not stated, but it will be evident that if British Banks could offer it for public subscription at 80 per cent., the contract price must have been considerably below that figure to cover the cost of underwriting, Bank remuneration, and other expenses incidental to an issue.

The total issue of the Loan was—by resolution of the League of Nations—limited to 650,000,000 Austrian Gold Crowns, say, £27,000,000. Of this total £14,000,000 was placed in England in 6% Bonds at 80%, yielding £11,200,000; \$25,000,000 in the United States in 7% Bonds at 90, yielding \$22,500,000, say, £4,500,000, and \$13,000,000 in American dollars in Austria in 7% Bonds at 93, yielding, say, £2,418,000. Issues of various

amounts have been made in Sweden, Holland, Switzerland, and France.

On the basis of the three issues given in detail the average yield was 84% or, putting costs, on a most conservative basis, at 5%, not more than 79%, or £21,330,000 nett—showing a deficit of 21%, or £5,670,000 in yield, and an average interest of, say, 6½%. This is a conservative estimate, since if British Banks could offer the loan at 80%, the contract price must have been nearer 70% than 80%.

The cost may be summarised as follows. The Loan falls due for repayment in 20 years. To repay a loan at 6½% by 20 instalments to cover principal and interest, requires an annual appropriation of £9 os. 1¼d.%, so that to repay £27,000,000 at the same interest, and in the same period will require annually £2,431,500.

The following therefore represents the total cost—

	£
Loss on yield, taken at 21% of £27,000,000 ...	5,670,000
Repayment by 20 instalments of £2,431,500 p.a. ...	48,630,000
Total ...	£54,300,000

In 1921 Austria's imports approximated, at current exchange, £62,000,000 in value, and to raise £2,431,500 by an *ad valorem* duty on this total would require an impost of just on 4 *per cent. per annum*.

Under the proposed method of allotment, a grant of International Credit would represent $\frac{4}{15}$ of £62,000,000 = $\frac{248,000,000}{15}$ say £16,533,000. For convenience of comparison, we will assume an allotment of £27,000,000 to have been made. Under the terms of issue the credit is to circulate *ab initio* at its face value, so that the grant will yield £27,000,000 net.

The initial payment of thirteen per cent. will require £3,510,000, and assuming this to be borrowed in full from the Loan Fund, the total cost to Austria—including repayment of the Loan with interest at 4%—would have been

	£
a. Initial payment as above	3,510,000*

* (a) being covered by (c) is omitted from the total.

b. Fourteen instalments of 3% or £810,000 per annum (including 5% for costs)	11,340,000
c. Repayment of (a) with 4% interest by 14 annual instalments of £332,280 p.a.	4,651,920

Annual charge for 14 years—£1,142,280. Total	
Cost	£15,991,920

To raise £1,142,280 by an *ad valorem* duty on £62,000,000 would require an impost of 1.8424%, say 1.85 per cent.

It is more than probable that part of the Loan was earmarked for the payment of International Debts, and that the yield to Austria in Credit available for her own requirements was even less than the normal grant of permanent International Credit to which she would have been entitled under the scheme.

Special features of the Loan considered.

1. *The Times* Correspondent, referred to above, tells us that the Austrian Scheme was prepared 9 months before the League's intervention was *asked*. It should, therefore, have been a well-considered measure framed in the joint interest of borrowers and lenders. It is a fair assumption that the Scheme was the best its framers could achieve under existing conditions of finance, which enable a loan to be in part floated in any Country in a currency other than its own. It would really seem that the circulating medium, as now employed, can do anything and everything, except to function as designed and furnish a stable medium for the equitable exchange of commodities.

2. No less than eleven countries, including Austria, are jointly concerned in the issue either as subscribers or guarantors. Of these there are no less than five whose currency stood—and still stands—at a discount to the sovereign, which was then itself at a discount to the American dollar and other units.

With an International Credit, also controlled and administered by the League of Nations' nominees, Austria would have retained, as she should have done, entire control of her domestic finance—no restrictions being placed upon her than those imposed uniformly on all participants.

The sole parties to the arrangement would have been Austria and the Authority of Issue. Austria would have had the option

to accept or refuse a grant of Credit offered to all Members of the League on identical terms, and acceptance of the grant entailed nothing more than the imposition of a special duty of, say, 2% on her imports for 14 years. So long as she fulfilled this obligation she would have been mistress of her own finance, unless the League should have thought it desirable to summon a Conference to discuss the principles on which an equitable settlement of State international obligations could be formulated. Once sever National currencies from International complications and their adjustment becomes a simple task. It needs but the issue of a medium slightly in excess of domestic requirements, and the calling in of 10, 20, 50 or 500 of the inflated Currency for each unit of the new issue to reduce the circulation to the total desired. Seeing that the purchasing power of the new issue would be equal to that of the old, the reduction in quantity would affect all Nationals in a measure proportionate to their holding and none would suffer by the reduction. With their international exchange rendered constant and their National Currency restricted to National requirements, the adjustment of International liabilities between State and State should present no insuperable difficulty.

The first step must be to furnish an equitable basis of international exchange, to set the wheels of production going and so widen the sphere of employment.

3. It will be noted that in both cases the sums due on the Loan are paid to officials of the League of Nations and in both cases levied by duties. The duties in the one case are imposed for 20 years, in the other for 14 only, but the two levies differ widely in character.

In the one case they are raised under compulsion to discharge obligations for a loan on terms of usury, in the other to provide funds by instalments for permanent investment in a form of credit available in every market at a constant value—participation in which is entirely at individual option, the conditions imposed by participation being the same for all. The imposition in the one case falls on the general income of the State; in the other it is specific and leaves the General Revenue free to meet obligations incurred on Capital Account whether to foreign Governments or to Nationals, and, above all, immune from the

constraining impulse towards inflation exercised by a Currency responsive to a depreciated exchange.

4. On a conservative estimate the cost of the Loan to Austria would be no less than £38,000,000 in excess of that which would have been entailed by a grant of International Credit of equal amount; but while in the former case the Credit is variable in value, in the latter it would be constant. When it is remembered that a Loan must be repaid, and that the only method of doing so is by taxing productive energy, either in the form of commodities or services, the loss to Austria will be the more readily apprehended.

Productive energy to the value of £38,000,000 sacrificed to secure a loan producing at most £21,500,000 is more than wasteful—it is criminal. The waste of war alone can vie with this response of the League to a Nation's appeal for financial help.

5. The prospectus puts the annual appropriation for the service of the Loan at Kr. 67,000,000 gold for a period of 20 years. This represents the equivalent of 10.3 per cent. on the total issue, or 12½ per cent. on the net yield as estimated above. The cost of the International Credit represents 4.23, say 4¼ per cent. for 14 years only.

One cannot but feel that the League officials favoured the lenders for usury rather than the borrowers for productive purposes. If the security offered did not, in their opinion, justify an issue of the Loan on easier terms, they should have required the provision of such security and, having obtained it, should have issued the Loan on more equitable terms. If this was impossible with the existing machinery, it is time the machinery was reconstructed, and control of currency everywhere restored to those from whom it has been wrested.

6. One fact should not be overlooked. The yield of the Loan was available—and, may be, was earmarked—for a settlement of certain debts, whereas the International Credit is to be restricted to commercial uses only.

The object of this arrangement is to revive production and exchange, by rendering them independent of financial control, and thus placing it within the power of each Nation to provide, by industry, for the settlement of National obligations in any manner agreed.

Such a settlement might well be carried out on an International basis and on identical lines, but that is a matter outside the scope of this work.

A copy of *The Daily Mail* of Saturday, April 15th, 1926, has just come to hand with the enquiry—How would the new proposals solve the present difficulty with the French franc?

The answer is—They would not only solve it with ease, but would remove all possibility of a recurrence, once an International Credit measured by an independent unit were agreed, and gold devaluated.

The article marked referred to a Contribution by *The Continental Daily Mail*, to a voluntary Fund in course of subscription to prevent further depreciation of the franc. It professed to report remarks on the situation by Marshal Joffre to the effect—"I want everybody to remember that we are fighting for the financial salvation of France."

This remark, if genuine, calls for comment. Why should Britain and others be called upon to pass round the hat, when the exercise by all Nations of common sense and the adoption of practical methods can not only at once remedy the evil but prevent the possibility of its recurrence? The Council of the League of Nations has only to move in the matter of an International Credit on the lines here stated, and the present plague of financial ague would be stayed.

The report not only furnishes an opportunity for illustrating the action of the proposals and the immediate benefits accruing from their adoption, but demonstrates the urgent need for them. From the only data available to the author at the moment, the imports of France for the 3 years 1922, -3 and -4 averaged approximately—at the fluctuating rates of exchange—some £675,000,000 per annum and four-fifteenths of this total would entitle her to a grant in International Credit of Mc. 180,000,000, on payment of the gold content measured by weight of £23,400,000 and giving an undertaking to impose for 14 years a special duty on imports sufficient to raise an annual instalment of £5,400,000, all payable in pure gold measured by weight. This annual instalment would represent an 'ad valorem' duty on imports of say 81 centimes per 100 francs.

The gold held by the Bank of France, as shown by the report for the week ending April 15th, 1926, amounted to francs 5,548,350,000 or, say Mc. 220,000,000, so that, by transferring to the International Currency Board rather more than one-tenth of its existing gold stocks and giving the required undertaking, every credit instrument drawn in terms of the French currency would become payable by the medium of the International Credit at the fixed parity of 25.225 francs. If then the day's exchange be altered from a variable 145 francs* to a stable 25.225 francs, the holder of the instrument suffers no loss, no matter in what currency the instrument be drawn, nor can the exchange value be raised save by International agreement. Thus the International exchange value of the franc would be established at the fixed parity.

The domestic parity, being stabilised by the law of legal tender will at once revert to its statutory value when the influence of International variation has been removed.

It may be asked—How is the inflated currency to be reduced to normal requirements?

It will be noted that after payment of the 13% instalment due on International Credit Account, France will still hold some 4,960,000,000 francs in gold and with that as guarantee, could at once proceed to deal with the depreciated purchasing power of her paper currency. According to the returns of the Bank of France, issued on April 15th, 1926, the paper notes in circulation amounted to francs 52,153,446,000, of which total francs 38,219,326,000 were set off as advances to the State and other public bodies. The loan to the State, exceeding francs 35,000,000,000, doubtless represented Bank credit pledged to support the inflated issue, and would be wiped out by the withdrawal of the currency, which would thereby be reduced to, say, francs 17,000,000,000, which as shown below, would probably represent the normal requirements of domestic exchange. This assumption, however, is rendered doubtful by the fact that the Issue and Banking departments are conjoined in a single statement. Take, then, another test.

* *The Times* of April 19th, 1926, gives the rate for the 17th as 144 $\frac{3}{4}$ —145 $\frac{7}{8}$.

The exchange value of this paper stood at 145 francs instead of 25.225 francs nominal. This represents a payment of 100 for each 17½ francs—a discount of 82½ per cent., and a loss in domestic purchasing power of say 70 per cent., since the purchasing power of a depreciated currency is generally greater at home than abroad. Putting the domestic purchasing power of the franc at 70, the liability of the State in respect of its domestic circulation is increased from 25 to 70 or from 5 to 14, seeing that it has to pledge the National Credit for 14 francs where 5, under normal conditions, should suffice.

By issuing a new form of currency note in exchange for the old at the rate of 5 for 14, the domestic circulation would at once be reduced to normal requirements, the purchasing power would be made to conform to statutory value—without possibility of future disturbances from outside sources, and, after earmarking 2,475,000,000 francs of the existing gold stocks to meet all demands on International Credit account, there would remain 3,100,000,000 francs in gold, as a guarantee for the domestic circulation. Putting this at 19,000,000,000 francs we have a ratio of gold to paper of 31 to 190, or 16.51% against the 11.21% there shown, and that after providing a stable medium of International Exchange to the extent of Mc.180,000,000. Moreover, the liability of the State to the Bank as its agents of issue in respect of the inflated currency—which, apparently, is included in the accounts as ‘advances to the State’—would be at once reduced by nine-fourteenths of the total, from francs 35,150,000,000 to francs 12,550,000,000, and this could be cleared by the gradual retirement of any currency found still to be in excess of normal demands, or retired by the purchase of gold as shown below.

In actual practice the ratio of gold to paper would be much higher, seeing that the initial payment to the International Currency Board will denude the gold stocks by 585,000 000 francs only, leaving some 4,960,000,000 francs uncharged. The 14 yearly instalments of 135,000,000 francs would be purchased from these stocks by National Currency taken in payment of the special duty on imports. This would only be restored to circulation by the surrender of other forms of national obligation, and to that extent the currency notes would circulate on

securities directly pledging the National Credit, and not on gold.

As a gold guarantee is wholly unnecessary for a currency based on the assessable value of all property held by Nationals, the whole of the gold stocks not earmarked for payments to the International Credit should at once be at the service of the State for the adjustment of War Debts and other external obligations.

CHAPTER XI

A RÉSUMÉ

"I do not hesitate to say that the greatest single evil of our times is the instability of our monetary unit as a measure of real value."

SIR JOSIAH STAMP, *The Christian Ethic as an Economic Factor*.

IN the opening chapter it was established beyond dispute that money, in whatever form it circulates, is but representative value. Unless, therefore, the commodity exists, the value of the representative medium is 'nil' since, unaided, it possesses no power to call its asset into being. If commodities are not available, the currency medium, though it be assessed at an arbitrary valuation, is at best potential only. There can be no reflection in a mirror unless a body be presented before its surface, neither can there be representative value unless the commodity, wherein the intrinsic value is inherent, be available. Credit must be based on assets, and the exchange medium expressing a credit in visible form, must derive its intrinsic value from that asset which it represents. Currency value, therefore, must derive from commodities, and will always be regulated in purchasing power by the current price of that commodity which is the subject of the exchange.

All commodities and services have an intrinsic value, but it can only be realised when exchange is possible, *i.e.*, when a market can be found. Although this intrinsic value may be constant—being regulated by its fitness for the purpose designed, its exchange value may vary in degree—being subject in every market to the economic laws of supply and demand.

In barter, the direct exchange of goods for goods, no occasion for a representative medium arose. The subjects of exchange were in evidence, and each was valued by its owner, in terms of the other, on the basis of its respective fitness for the purpose

required. As commerce extended in volume and area a medium of some kind became imperative.

Historical evidence goes to show that the first material medium was corn—a commodity essential to the maintenance of life. The corn was collected by Governments in payment of taxes, conveyed to and stored at the centre of Government, and thence issued in return for services of defence or National development rendered to the State. This was, in reality, a modified form of barter—the exchange of goods for service.

The discovery of metals and their adaptation to the requirements of industry introduced a more compact medium, the exchange value of which derived from its utility. This at once offered facilities for the extension of trade over a wider area, the less bulky and more durable medium being transportable to a greater distance, and, as the range of commerce widened, copper superseded corn. It will be noted that its value as a medium still derived from its intrinsic value as a commodity, and was proportionate to its fitness for the purpose required. Exchange was still barter—goods being exchanged for goods or service, and the value in the case both of corn and copper was inherent in the subjects of exchange. Both were media, in that they were transferable prior to consumption or use, but *per se* both constituted intrinsic rather than representative value.

Later, the discovery of silver and then of gold, led to further extension in the area and range of commerce, the increase in value due to their rarity leading to a reduction in weight to represent the like value. Each in turn was adopted as the Standard, a fixed weight of the metal constituting the 'unit' or measure of value. Thus in early times we find the same term denoting both the unit of weight and that of value, *teste*, the '*shekel*' of Syria, the '*as*' of ancient Rome and the British 'pound.' Masses of metal, however, though identical in weight, might be made to vary greatly in fineness and, consequently, in value by the admixture of alloy. To remedy this defect, coinage was introduced, the weight and fineness of the 'unit' coin being regulated by statute, and the effigy of the ruler or insignia of the State stamped thereon to legalise its circulation. This did not imply that the material itself possessed a fixed value, but that it contained a definite weight of metal of a given fineness, and so

represented such weight in commodities as the unit coin, divided by the current price of the commodity forming the subject of exchange, would permit. Thus the medium became representative.

It is not necessary to a right understanding of the origin and function of currency to trace the various changes in value of National coinages through the course of centuries; it will suffice to say that in more recent centuries they have been largely due to an alteration in the Standard metal from silver to gold, or the adoption of bimetallism, and the attempts to reconcile the value of standard coins to the ever-varying ratio in the value of the two metals. This book is a review of facts as they are to-day, in an honest endeavour to extract therefrom the causes of our present monetary troubles, and further to obtain reliable data on which to build a sound system of reform at once remedial of existing ills and preventive of others in the future. One fact is patent. At no time prior to 1844 was an arbitrary value assigned to the exchange medium other than that which it acquired as representative of commodities. The idea of so doing would seem to have originated in the desire to avoid the frequent changes in 'unit' value referred to above, and to confirm Britain's supremacy in commerce; but the idea was erroneous and has led to disastrous results. By valuating gold—by assigning a fixed value to it as metal—we create an exchange medium independent of Government control, and facilitate the transfer of National assets beyond the reach of the Government within whose bounds and under whose protection they have been acquired.

The initial error lay in regarding money value and not commodity value as the prime factor in exchange, though it is the latter on which production and exchange alike depend. The authors of the Bank Charter Act mistook the reflection for the object reflected.

No matter what its material, the value of a monetary medium derives from the National Credit, a portion of which is thereby made visible to facilitate the daily exchange of goods and services. Every coin or currency note as truly denotes a pledging of the National Credit for a definite purpose, as an Exchequer Bond, a certificate for Consols, War Loan or any other form of National

borrowing. The purpose of the issues may and do differ, but by currency issues Government undertake the twofold responsibility—to maintain the medium at a constant value in every National market and to issue a sufficient amount to meet all needs of its Nationals. Unfortunately they have not yet undertaken the responsibility of ensuring the provision of due supplies of National necessities which the issue of representative value should imply, nor the prevention of higher prices by the needless intervention of unnecessary middlemen, who exact a profit without adequate service rendered. The Act of legal tender makes it a full set-off at its face value for any goods or services on offer within National bounds, and Government officials are bound to accept it at the same value in discharge of any and all financial obligations to the State. Moreover, the system of Banking, as at present practiced, ensures the restriction of circulation to domestic requirements.

The form of tender makes no difference whatever, provided it be that sanctioned by Parliament for the time being. Here, in England, during the last fifteen years, we have had experience of two distinct forms of currency—the gold sovereign eked out by Bank of England Notes—and the Currency Notes. We are shortly to have the two combined, for the transfer of the issue of Currency Notes from the Treasury to the Bank of England, there to figure under the pseudo-protection of the Gold Reserve will re-introduce a demi-semi Gold Standard. The change in form of the medium has made no difference whatever to the wealth of the holder nor to the purchasing power of the ‘unit,’ which, be it remembered, is always the unit of value divided by the current price of the commodities on sale. The man who in 1913 changed a £5 Bank of England note into 5 sovereigns or 4 sovereigns and £1 in silver, neither added to his wealth nor increased the purchasing power of his holding; nor was he one penny the poorer in wealth or purchasing power when, late in 1914, he surrendered the same amount in gold for five Currency Notes. Bank notes, gold sovereigns, silver coins and Currency Notes were alike a full set off for their face value in commodities at current prices. One and all were alike based on the National Credit, but while in the Currency Note the credit circulates as a direct obligation of the State, it did so indirectly in the gold

sovereign, having been previously pledged to purchase the gold for coinage in circulation, and the securities establishing that pledge, or others outstanding, had been deposited with the Bank of England in exchange for the gold when coined, though the gold has been proved to furnish a medium no more sound and efficient than the Currency Note.

It may be urged that such a line of reasoning overlooks the need to protect British credit abroad. In what way? There is no National Currency which is legal tender abroad, and for credit instruments issued on individual or corporate initiative, on an unknown credit, and without restriction as to amount, the State is in no way responsible, unless and until they are presented for payment in cash in the country of issue. When this occurs the Government is bound to provide the Banker with the equivalent in National currency, in exchange for securities, and there its responsibility begins and ends.

Have any readers ever troubled to think what would be the state of commerce if there were no such thing as a gold Standard, had the value of gold continued to consist in its commodity equivalent? Having no intrinsic value as money, holders abroad would have been compelled to return it for its value in commodities, exchange it, or use it for other purposes. This was its mode of operation prior to 1844, and it follows—the larger the requirements of a Nation from others, the larger would and must be the demands on its productive energies to redeem its currency held abroad. And the greater the sum so held, the larger would have been the demand for goods to redeem it, since it was not currency where held and practically valueless as a commercial instrument unless redeemed. The assignment of a stable metal value to gold made it pre-eminently the instrument of finance, and facilitated its absorption and use for other purposes than those designed. So rapidly was usury—the employment of money-capital as a commodity for gain—developed, that gradually the function of money as designed was superseded by its use for finance, and, possessing a value *per se*, it was manipulated to promote “bull” or “bear” tactics as various financial combines sought to control the markets. Its redemption by commodities, therefore, became a secondary consideration; and, personal gain being the prime object, the effect on

production and employment was disregarded. By restoring currency credit to its original purpose and confining it thereto, the only way to regain International Credit will be by the purchase of goods directly from those into whose custody it has passed or indirectly through others. This consideration furnishes an additional ground for differentiating the notes issued to individual nations—for circulation between Treasury and Treasury until the gold guarantee is completed, and the regular publication of their holdings by the several Treasuries. It will give an indication to all of the trend of trade and its variations. The fifteen years' probation afforded by the building up of the Gold guarantee, prolonged if necessary, should furnish opportunity for each Nation to adjust its International trade with others so that balances shall mutually approximate. Once the guarantee is completed, the Credit will be identical for every Nation. Then, skill, intelligence and industry will come into their own, and quality in material and workmanship, coupled with superiority in design and efficiency, should hold their place against cheap power and labour and lower cost of production. The aim of competition will be to produce commodities of the highest intrinsic value—best fitted for use or consumption, which will command a larger return in the commodities which the producing nation requires, and not a quick return in mere money value.

The return of securities pledged to purchase gold in payment for the same gold when minted does not square the account. The total of gold in circulation as coin and that held in reserve by the Bank of England represents so much National Capital needlessly tied up to confirm the National Credit, which all the gold in the world at its monetary estimate could not represent in value, and which can as readily and efficiently circulate by a paper medium as by gold. The equity of exchange is as fully protected by the one medium as by the other, since both forms are legal tender for the same value in commodities, and what 'A' accepts from 'B' all others must in turn accept from him at its face value. It is evident, therefore, that while the material of the credit medium is of infinitesimal importance within National bounds, it becomes a matter of the gravest concern when instruments of private credit expressed in terms of National currency are compelled to function outside their legitimate sphere.

Under stress of circumstances rather than from design, Great Britain in 1914 adopted a form of currency the most perfect possible for a well ordered State, and the projected transfer of the Currency Note Issue from the Treasury to the Bank of England, that it may shelter under the scanty dimensions of the old lady's modern *pallium* of gold, and so re-establish a fictitious gold standard, is a step purely retrogressive. Once again the old shackles are to be rivetted on the limbs of production and exchange, and humanity brought into helotry to pelf.

How little need exists for this gold reserve, even for private credit circulating abroad is shown by the reports of the Bankers' Clearing House for 1924 and 1925, the former of which states that a total of £40,000,000,000 yearly in paper credits issued privately by individuals and corporations was there adjusted without recourse to the National Currency. Not that such settlement savours of the marvellous, inasmuch as every cheque, draft, or bill there handled represents a form of *Bank Credit*, and special *Credit* accounts are maintained at the Bank of England by each and all of the Clearing Banks solely for the adjustment of daily balances at the London Clearing House. None the less, a Gold Reserve is an essential feature in the circulation of private credit instruments abroad, seeing that they contain no single characteristic of a sound money, and gold is the sole medium of value internationally recognised. As has been stated, the essentials of a sound money are three :—

It must be issued by Constitutional Authority ;

It must command its face value constant in every mart ;

The face value must be variable only by the Authority of Issue.

There is a limitation attaching to the first essential—the issue should be made on approved security and within specified limit as to amount.

These three essentials involve a fourth, that the circulation must be confined within those bounds which restrict the operation of National law. The State speaks by law, and law has limitations, both to its application and its effect. The circulation of a currency depending on the statute of legal tender is consequently confined to national bounds.

In contrast to these essentials of a sound currency, the Credit instruments by which foreign trade is transacted are issued privately, without restrictions as to amount, and on a security absolutely unknown, while its face value is not constant but can be made to vary widely by the manipulation of irresponsible combines, unauthorised by and even unknown to those who issue them. How widely recent experience has taught us. In the issue of these credit instruments the State has but the remotest concern. It is for their support alone that stores of gold must necessarily be maintained at the National Bank of Issue, but only where a Gold Standard obtains, since they are always payable in the National Currency. What proportion of the huge sum of £40,000,000,000 represents financial and commercial payments respectively, it is impossible to determine; but in the present condition of International trade one may safely affirm that at least 90 per cent. of the gold movements are occasioned by finance.

Now that the whole currency of the Nation, including Currency Notes, is to be transferred to the Issue Department of the Bank of England, this gold will appear as the joint cover not only for the £40,000,000,000 cleared as credit instruments, but for the £1,500,000,000 representing the annual turnover of £300,000,000 in Currency Notes employed for the requirements of domestic exchange and the settlement of bets. For this huge circulation of Credit the present stocks of gold amounting to, say, £160,000,000 furnish a working cover of .3855—less than $\frac{1}{4}$ or two-fifths of one per cent. Regarding the matter from the opposite viewpoint, and assuming that Credit functions at the same velocity as currency, this £41,500,000,000 turnover represents an available Credit currency of £8,300,000,000, for which the gold stores provide the liberal protection of less than 2 per cent. If mutual confidence exists between individuals of different Nationalities in such degree that they can honour private credits circulating on less than 2 per cent. cover in gold, there can be no possible objection to the circulation of a public International credit possessing all the essentials of a sound money which the other lacks and based on a guarantee of, say, 50 per cent. in gold. It demands from Governments but a twenty-fifth part of that confidence which already obtains

between their Nationals, coupled with the desire and the will to achieve better things. To secure this is the task of the peoples, and to promote this should be a prime aim of every Government and of the League of Nations.

It has been shown that instability in a medium renders it inequitable and therefore unsound. Yet we find writers on "Exchange" extolling the fact even in verse—

‘That a rise in rates is for us,
And a fall the other way.’

This is perfectly true as far as finance is concerned, but in commerce the influence of the movement is out of all proportion to the fact. There a rise in foreign exchange rates renders quoted prices for goods higher in comparison with those of countries where the exchange is on a par with, or still below that of the prospective buyers. Thus the vendor country is compelled to lower its prices, lest would-be buyers transfer their enquiries elsewhere. With a stable exchange disturbances to trade from this cause would be impossible, and a stable medium can only be achieved with gold devaluated, and measured by an independent unit. In domestic exchange neither buyer nor seller looks for extra advantage from the medium employed. Why, then should we do so when trading abroad? Gold can as readily and as efficiently function by weight, as by value, whether it be to guarantee an International Credit or Bank and private credits circulating beyond Government control. With gold devaluated these must of necessity be referred back to the commodity values on which they are based. The recent development of 'wireless' places the most distant centres of trade in touch with one another in a few hours, so that, in cases of emergency monetary communication could be made direct through the Representative Bank. The draft, when issued to the debtor by his Banker, could be handed in by him against an acknowledgment in duplicate, at the Representative Bank, where, by a special service and code, the Representative Bank of the *endosse* could be instructed to notify his local Banker—named on the endorsement—to pay against receipt of a complete set of documents the sum named in the draft, which they already control, and to forward the documents to them, and they, on receipt of the same, would credit the local Bank through their

licensed agents, with the sum paid. The documents would be forwarded by the one Representative Bank to the other, and delivered to the buyer against the duplicate of the Bank's acknowledgments for the draft.*

To dwell further on the proposals themselves and their working is unnecessary. Enough has been already written to demonstrate both the need for them and their efficiency in supplying that need. It will be well, however, to draw attention—1, to their adherence to fundamental principles; 2, to the absence of all interference by the League of Nations with the domestic concerns of any individual Nation; and 3, to the limited changes effected in the structure, measurement and mode of operation in the existing system, other than the removal of the faulty and more complicated parts of the machine and the introduction of substitutes at once more durable in material, more simple in structure, and more direct and efficient in operation.

1. It is a fundamental principle of Government that the Control of National Assets vests in the body politic, or such of its units as are entitled to the suffrage. This is generally expressed by the dictum—'No taxation without representation,' the people's will being supposed—and it is pure supposition under the present structure of Parliament—to be expressed through their representatives. Since the powers to be granted to the International Credit Board and all details regulating the structure, basis and working of the Credit must be submitted to and approved by National Parliaments before the Board is instituted, this principle will not only be recognised but its requirements will be duly met.

The principle of equity will be secured by the identity of all conditions imposed on those participating, as well as in the functioning of the medium both between nations and their nationals.

The principles of mutual co-operation and the comity of nations are met by provision made to enable those who need to borrow on easy terms the gold required for their initial payments to the Board, leaving future payments to be raised in an uniform manner by all participants, and so entailing an identical burden

* For further details, see p. 144.

on all Nationals the world over. Such a loan should not, and must not, be regarded as a matter of usury, but as a simple recognition of the economic truth governing all forms of organised life—aid rightly given is help received. To aid a Nation in the development of its productive effort must help to swell the volume of international trade, since every producer tends to become a vendor of some international requirement and goods must be paid for in goods.

2. The International Credit Board will have no executive powers other than those previously approved by the participating Nations in their mutual interest. The grant of credit will be made on an identical basis to each participant, subject to an agreement between the Board and such Nation. The terms of these agreements will be the same for all, the conditions imposed will be identical, their observance will be solely within the power and under the control of the contracting Nation, and the penalty for failure will be the same for all and exacted without fear or favour. It will be a two-party agreement needing no guarantor, and the one obligation universally required demands no Constitutional powers beyond those which a stable Government should already possess. The International Credit Board will possess no power outside the credit unless it be deemed advisable that all international loans should be arranged through them under the protection afforded by the Credit.

3. The system is to be on the same lines as that now in vogue—a credit circulating by drafts, and in the absence of International assets, the reserve or guarantee on which the credit is to function will consist of gold—the sole monetary medium now internationally recognised as possessing value. The changes are in the unit of measurement and in the mode of operation.

A distinct form of credit should have its own unit of measurement, independent of all national units—that it may be immune from National complications—and yet possessing a clearly defined ratio to each. The unit is to be a weight of pure gold, without any reference to an arbitrarily ascribed value other than that necessary to assist in determining the weight. It represents that weight of pure gold which a test, averaged over 50 years, has shown to be the equivalent measured by British prices of a fixed weight of wheat—an essential commodity,

which furnished the first 'standard' and first 'unit' of interstate exchange. The unit being determined by weight, gold as a metal may be devaluated, and, the statutory price of 84s. 11½d. per ounce being annulled, will become a perfectly free market. This will at once end the domination of finance over production and exchange.

The new unit should be imperative for all international monetary transactions, whether in the sphere of commerce or finance, thus rendering all loans repayable at unit value.

The Credit of a Nation always far exceeding its gold stores in value, the latter are rendered unnecessary for a domestic currency circulating as a credit. It is, therefore, proposed that the Stores now held by individual Treasuries as National Trustees, should be pooled *pro rata* to the grant of Credit, and placed in the custody of the International Credit Board to be stored at central repositories appointed by the Council of the League.

Currency being originally designed to facilitate the exchange of commodities, it is proposed to restore it to its original province and restrict the use of the Credit to commercial purposes. Finance will be in no way hampered by so doing. It will continue to use its present medium—Bank credit, but will be required to find its own gold stores. It is no part of a Government's duty to provide for the transport to foreign shores of National Capital on which it has a prior lien. The State will thus resume its legitimate control over all forms of currency, national and international, which constitute a charge on the National Credit, and should find it an easy matter to regulate the export of capital should the need arise.

Efforts are urgently demanded and must be forthcoming to restrict the speculation in produce and goods, and to provide a ready and constant supply of credit for *all* domestic needs. To the promotion of both these ends the new system lends itself. To the first, by requiring a declaration of the goods in payment for which the draft is issued. To the second by insisting that payment shall be made simultaneously with the transfer of goods on which the credit is based. The first of these places it within the power of Government to licence the importation of essential food stuffs and raw material, and to restrict importa-

tion thereof to licence-holders. The second, by restricting the period for the use of Bank Credit for commercial purposes abroad, tends to ensure a constant supply for the support of home industries, together with a more or less uniform charge for accommodation, thereby aiding producers to calculate in advance their probable outlay on a contract.

The pure gold content of the sovereign being 113.0015 grains that of 19s. 11.55d. will be $\frac{239 \frac{55}{240}}{240} \times 113.0015$ grs., a deficiency of $\frac{45}{24,000}$ or $\frac{9}{4800}$ ths. This represents a deficit of .211878 of a grain in every sovereign. The loss on £1,000,000 would, therefore, be 211,878 grs., say, £1,870 or .187 per cent. This would go through the Representative Bank to the Treasury, and may be regarded as a contribution towards the expense of providing a stable medium for a minority benefit, and would correspond to a Bank charge for a draft. It cannot affect the existing parities to the Mundic, for these all being based on the sovereign must share in the loss or gain in adjusting that unit to the Mundic. Thus all governments will benefit alike, and direct users of the credit alone will contribute to the cost of its operation, which is equitable. The new unit, therefore, will be the weight of pure gold, which has proved by experience the monetary equivalent of 240 lbs. of wheat averaged over 50 years, and not the same weight of gold assessed at an arbitrary value.

The changes in the method of operation are slight but very marked in their effect. The medium will be a draft obtained through a licensed Banker on the basis of certain information asked for in the interests of trade, and of the whole community. The draft will be made payable to the person and at the Bank named in the endorsement thereon, and, being an official receipt for value already paid to the account of the International Credit Board, may at once be credited to the holder's account in native currency. Being limited in operation to a definite transaction there can be no intermediate manipulation, and being confined to commercial usage the requirements of finance cannot affect it.

It is matter for regret that the idea of attaching an arbitrary value to the material of the medium should have originated with Great Britain, though it is patent that it was an honest attempt to establish a fixed parity between the National cur-

rencies circulating internationally in commercial exchange. The error lay in regarding money-value as the prime factor in exchange and not commodity value, on which money-value in production and exchange alike depend. It is the commodity-value which must stand first on every and all occasions, because money is, as it has ever been, merely an instrument for facilitating the exchange of commodities at their inherent values at the current price. It results from this—the only rational and legitimate point of view—that the prime consideration in the functioning of a monetary medium is equity. Equity in the medium can only be secured by its stability as money. Instability, therefore, must be a barrier to equitable exchange, since it involves an advantage to one party to the exchange at the cost of the other. The same argument applies to the medium in operation. If it does not function uniformly, if its operation can be swayed at will to promote the interests of one party against those of the other, *e.g.*, the interests of finance against those of commerce, it stands condemned. The maintenance of such a system is opposed not only to the best standards of commercial life, but violates the dictates of justice and every demand of human brotherhood.

From an instrument of exchange, provided freely by the Banks who regard it as their stock in trade, it is transformed into a commodity to be bought and sold, and is so unfettered in its use and lends itself so readily to manipulation that it now completely dominates every phase of human activity. It constitutes the standard by which position—political, social, industrial and, at times, even religious—is adjudged. The perversion of view for which its influence is responsible is the cause of wars, race-antagonism, class-hatred, and industrial strikes, to say nothing of party politics and general mis-government. It is not, and never will be, a higher money return for labour, which will induce and foster a higher and more intellectual standard of National life. An increase in the remuneration of labour without a corresponding increase in the volume or quality of the products must involve an increase in the cost of production, and a higher price for commodities with an additional profit on the excess. Thus the main portion of the increase in wages will be needed to pay for the same necessities and comforts as

were obtainable at the old rate, and will leave little or nothing for the provision of greater comforts and more rational recreation. For the means to achieve a higher level we must secure a general increase in productive activity—to which end a constant medium of exchange cannot fail to contribute. There needs greater care in directing production to commodities best suited for the needs and comforts of life; more direct control by the State over National resources, and the just distribution of their yield, not on an equality basis but, as it is in the body physical, in due proportion to the work done and the needs created by the expenditure of energy. This does not necessarily support the existing differentiation between grades of work of similar character. The test of all labour value is its fitness to secure the end required and its efficiency in functioning. From the point of view of health, the work of the scavenger, though unskilled, is as essential—and may be more so—to the health of the community, as that of the highly skilled physician and surgeon. Indeed, from one point of view it is superior, since ‘prevention is better than cure.’ Here, again, the money test fails.

These are no new theories of the author, but the simple and logical deductions from the operations of the natural laws which govern organic life, and are demonstrated for us daily in our own bodies. Not till we adopt a saner, a more rational, a more divine view of corporate life, its duties and responsibilities, of the interdependence of nationals and nations, of the need for one definite aim—the common weal, and of one united method for achieving it—obedience to divine law, will any real improvement in the standard of national life in its every phase be possible. So long as money is the “be all” and “end all” of human existence, and the getting it the goal of human endeavour, so long will life’s standards be of the earth earthy, and its principles of action those of the beasts that raven and destroy. It has taken centuries for Governments to realise that men and women, not their possessions, constitute the integral parts of the nation. It will take decades yet for these men and women to learn the duties and privileges which the possession of the suffrage demands and imparts. Still longer and sterner will be the period required to enforce the lesson, that command of self alone begets power

to control aright the actions of the State, and that the right control of those actions means the best for every unit of the community, ourselves included. Then the common need will come before the personal, and joint action for the common good must result in the betterment of the individual.

This is no digression, but a tracing out of the principle that the character of work is of more importance than the monetary reward which it brings, because it tends to the production of the best, which always possesses the greatest intrinsic worth. The one seeks to promote the growth of a leaf, the other to develop and beautify the tree. The former is essential to the latter, but it does not stand alone. The one begins and ends with the individual life, while the reciprocal action of the other is perpetuated in the corporate life of the Nation, and is shared by every national present and to come. It was a sorry day for production, exchange and labour when Trade Unions diverted their attention from the quality of the work done to equality in the wage earned. A full living wage is every man's due, but efforts to secure it should not disregard the higher essentials, the quality of the work done and its influence on the character of the doer. An increase in the reward of labour may result in a minimum of benefit to the individual worker, but an increase in output and, above all, in quality of the work done, cannot fail to benefit the whole community in life and character.

Had those responsible for the Act of 1844 had a truer conception of the requirements and influence of international commerce, had they realised that goods must be paid for by goods, that every vendor was a potential buyer and every buyer a potential vendor, and that a free international exchange was a dominating factor in productive activity at home, they would not have preferred national gain from financial operations for the benefit of the few, to the more solid and substantial claims of international commerce and the industrial benefits thereby secured for the whole. Much less would they have ignored, as they did, the true origin and function of credit, and the limitations attaching to the circulation abroad of private credit, at an arbitrary value, in lieu of an amalgamation of National credits circulating internationally as legal tender, by general consent. Grant that the action was prompted by the desire to employ the national

savings profitably in developing extraneous resources. This must not override the fact that the first use of such savings should be the betterment of national life at home, for the development of national life cannot fail to beget fresh needs, calling for fresh outlay. Then by loan of the surplus on easy terms to foreign Governments, that their nationals in turn may develop national resources to the betterment of their condition and the ultimate enrichment, in the truest sense, of the whole world. The higher and better the development of all nations, the higher will be the standard of national life, and the higher the world standard the higher will be the standard of production, the more uniform the cost, and the more uniform and consequently more equitable the basis of value on which goods are produced and exchanged.

In justice to the would-be reformers of 1844, one must admit that the error was prompted by a desire to establish British supremacy in commerce by control of the commercial medium. At best, it was a grave error of judgment, and speculators and financiers have not been slow to avail themselves of the opportunity. It is not exaggeration to say that during the years 1919 to 1921 there was larger business done in London and elsewhere in the manipulation of exchanges, and the purchase and sale of currencies, than in the exchange of commodities. It is not too late to reconstruct the machine on a new model, with sounder foundations, more durable material, and less cumbrous gearing, and so to improve its working that it shall result in gain not so much to individuals as to the whole community; not to one nation only, but to the whole World.

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